

# **LETSEMENG LOCAL MUNICIPALITY**



## **MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK**

**2012-13**

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## **PART 1**

### **1.1. MAYOR'S REPORT**

Honourable Councillors;

Municipal Manager and Senior Managers;

Municipal Officials;

Invited guests and the Media;

The community of Letsemeng;

Community Development Workers present here today;

Fellow Comrades and friends;

Acknowledge my warm and heartfelt greetings to you. It is indeed a privilege and honour to be with you this morning.

Honourable Councillors, the African National Congress celebrated its Centenary at Mangaung during 08 January 2012. Being reminded of the bitter political past, the pain and suffering, and loss of innocent lives, we have been made to understand that after the long walk to freedom, South Africa is a better place in the continent. Therefore, when we discuss service delivery issues, we must not lose sight of the sacrifices that were made to get us where we are today.

Honourable Councillors, one of the freedom fighters once said "We can measure an improved quality of life by various measures, but the best indicator is that every action proposed or contemplated, should in its implementation, wipe the tears off the faces of the poor and the down-trodden. Only when we have wiped the tears from the faces of all, would we have truly arrived as a nation". How amazing it is to see the relevance of these words in our day and age.

As I present the Mayors Report, formerly called the Mayor's Budget Speech, allow me to present the draft reviewed Integrated Development Plan 2012-13. This document entails in the main unlimited needs of our people. It is public knowledge that we are confronted with having limited means to fulfil them, however after all the engagements we will be bound to prioritise and deal with the more pressing needs that will have huge development outcomes and impact to our communities. The process plan of coming up with this document was approved by Council and it guided us through until we emerged with it.

Our situational analysis has not changed drastically and all the changes were noted and planned for in the objectives and strategies phase. Notably and informed by risk management lessons we have made our objectives and strategies to be specific, measurable and achievable. The strategies have been summarised so that this document retains its strategic status.

Honourable Councillors I now turn to table the Medium Term Revenue and Expenditure Framework 2012-13 for consideration and approval by this Council. The

2012/13 budget was prepared under challenging circumstances. It took a lot of effort and creativity to produce a credible and funded budget as required by the Municipal Finance Management Act read together with the Municipal Budget and Reporting Regulations. As we are all aware, the world is still recovering from the economic meltdown and our municipality is not immune to this economic challenges.

In preparation of this proposed budget, we took into account several other factors including the Consumer Price Index inflation rate as provided by National Treasury on MFMA Circular No. 59. The CPI is not a good measure of the cost of increases of goods and services relevant to municipalities. Still we are expected to limit our tariff increases based on this indicator. When taking into account the steep increases of electricity, fuel, and other pertinent issues, it is impossible to limit our increases to CPI.

On average, the tariff on property rates will increase with an average of 12.5%; 10% increment on trading services (that is on water; waste management and waste water management). These are affordable in terms of rands and cents although the percentage might look exorbitant. Furthermore, National Treasury has issued a directive that municipalities must put processes in place to ensure that services are cost reflective by 2014.

The Eskom price of bulk electricity supplied to municipalities will increase by 13.5 per cent from 01 July 2012. Based on this price increase, and increases in the price of other inputs NERSA has set a guideline increase for municipal tariffs of 11.03 per cent.

It is acknowledged that while the municipality is not a profit-making organisation it must be maintained as a going-concern; therefore we cannot do without increasing the cost of our service. Honourable Councillors, the tough economic times that we currently face push us to be more creative, more inventive but remain highly productive.

Letsatsing lena moo ke tekang ditekanyeso tsa ditjhlete, ke lakatsa ho hlalosa hore, dikabelo tsa ditjhelete tseo ke tlong ho bua ka tsona, di hlomisitswe ho thjelete eo Masepala e lebelletseng ho e una ho tswa ditshebeletsong tseo a fanang ka tsona ho Baahi ba Letsemeng. Sena se bolela hore, ha Baahi basa lefelle ditshebeletso, ho tlilo hoba thata ho Masepala hore ophethise ditshepiso tsa ona. Ke kopo ya ka ho lona Baahi ba Letsemeng hore, ha re patalleng ditshebelletso tseo re di fumanang ho tswa ho Masepala. Ho bao basenang bokgone ba ho patala, lekotjwa ho etala diofisi sa Masapala wa lehae mme le ingodise jwalo ka bahloki (indigent).

In so doing, you are assisting this municipality to maintain such services and further provide additional services to you. It is the intention of this municipality to move towards ward-based planning and development. This would in turn mean that services will be aligned to the payment that is being received.

Honourable Councillors, an operating revenue budget of R102 million is proposed for the 2012-13 financial year. This amount is expected to accrue from the following major revenue sources:

Property rates	R6.3 million
Service charges: Electricity	R20.4 million
Service charges: Water	R7.9 million
Service charges: Waste water management	R6.3 million
Service charges: Waste management	R5.7 million

In addition to the afore-mentioned revenue sources, the municipality will be receiving grants and subsidies from the National Revenue Fund on the following operating grants:

Equitable Share	R50.5 million
Expanded Public Works Program	R1 million
Financial Management Grant	R1.5 million
Municipal Systems Improvement Grant	R800 thousand

The latter two are conditional grants and they must be spent in line with the conditions of the grants as laid down in the Division of Revenue Act. We are also expecting to collect about R1.8 million from other revenue sources.

A revenue enhancement project has been established. This project aims to increase our revenue base through identification of consumers that have recently fallen back in paying rates for whatever reason. A report is expected from the administration by August 2012 in terms of bad debt that needs to be written off, especially the indigents.

Tender processes have already unfolded to appoint a service provider to undertake the compilation of the valuation roll. An allocation of R3.7 million has been appropriated for the 2013-14 till 2016-17 financial year. Upon successful completion of the valuation roll, it is expected that our revenue from property rates will increase, given that our current Valuation Roll has high level of omissions and property values thereon are also not market related.

Eerbare Raadslede and die bree gemeenskap, noudat ek ons inkomste nougeset uiteengesit het; laat my toe om uit te brei oor hoe fonds aangewend gaan word.

Ons stel 'n totale operasionele begroting van R101.7 miljoen. Dit is in werklikheid 'n massiewe verhoging van R13.8 miljoen vanaf ons vorige finansiële jaar se begroting van R88 miljoen. Ongeag, hierdie begroting is opgestel om die objektiewe van die Letsemeng gemeenskap te adresseer.

It is proposed that employee costs will be R33.3 million which is 33% of the total budget. This is at ceiling of the acceptable norm of between 30 to 35% and has allowed for an expected 6.5% increase in salaries (as per the recommendation from Salga) as well as the creation and filling of critical post.

Balekgotla ba hlomphehileng, re tlameha ho hlokomela Basebetsi ba rona le ditabatabelo tsa bona. Ka lona lebaka leo, re abetse thjelete etlo thusa Basebetsi ba rona ka rente. Mme re ntse re itlamba rele Masepala, hore, re tliho phethahatsa karolo ya rona ho ya ka ditumellano tse akaretsang pakeng tsa rona le Basebetsi. Re entse ditekanyetso ho thusa Basebetsi ho patala le hoba ditho tsa penshene. Empa re tshwenyehile haholo ke Basebetsi bao basa ingodiseng hoba ditho tsa penshene.

The current government has identified education as one of the focus areas. We take education as the corner stone of any developing country. An amount of R62 thousand has been allocated to assist academically deserving students with registration during the 2013 academic year. A policy in this regard will be submitted to this council in due course for consideration.

An amount of R2.2 million has been allocated towards chemicals for water treatment and improvement of the quality thereon. I must state to the community members who are here today, that the water supplied by the municipality is drinkable. We condemn and we don't want to be associated with the reports on the media that our water is not drinkable.

The repairs and maintenance budget is at R4.9 million with roads and bulk services making up the majority of this allocation. Bulk purchases for both electricity and water are appropriated at R20.4 million and R2.1 million respectively. We have also allocated R1.1 million towards development of the SMME's which will assist with job creation.

Our capital projects will also use labour intensive method when they are executed and we also envisage using labour intensive methods when we undertake repairs and maintenance of our asset. For the poor, the budget continues to expand spending on provision of free basic services. The cost of free basic services provided to the community is budgeted at R36 million.

However, we cannot rest on our past laurels as one family living in poverty is one too many and therefore all our efforts must be aimed at sustaining rapid economic growth which will in turn create even more jobs and opportunities for our residents.

The remainder of the operational budget provides for the continuation of the high levels of service delivery that are aimed at the residents of Letsemeng. I can't talk about service delivery without emphasising on capital budget.

Indeed this proposed budget is focused on maintaining and enhancing basic service delivery to all areas in Letsemeng municipality. However there is a definite shift towards addressing the need for additional infrastructure and social facilities in poorer communities.

For this reasons, our capital allocation for the 2012-13 is at R23.8 million, an increase of R4.3 million from 2011-12 financial year. Honourable Councillors, our own contribution towards capital expenditure has increased from R696 thousand to R1.7 million. The other portion is funded from the MIG.

We have as a municipality implemented the following projects during the 2011-12.

Waste water treatment works at Petrusburg  
Sports complex at Koffiefontein  
Upgrading of streets and stormwater system at Luckhoff  
Upgrading of streets at Jacodsdal  
Multi Purpose Community Centre at Koffiefontein  
Pressure Elevated tank of 500 kilolitres at Petrusburg  
Electrification of stand at Luckhoff  
Water relief at Petrusburg in conjunction with Department of Waters Affairs

Some of these projects I have mentioned are multi-year project which will run into the next financial year. We are proud of our achievements although there is still much to be done! We are quite aware of the current pressure in terms of the MIG spending. We must use time wisely and forever realise that the time is always ripe to do right. We will improve our planning processes to avoid under-spending going forward.

As the municipality, we are committed to providing sustainable services to the community. For the 2012-13, we intend to execute the following projects:

Upgrading of sports facility: Luckhoff	R3.3 million
Multi Purpose Community Centre: Koffiefontein	R12 million
Upgrading of streets: Jacodsdal	R6 million

Honourable Councillors, a volume of documents are table to the sitting of Council today (that is integrated development plan; annual budget and budget related policies, etc). We are aware that this is a huge volume indeed, besides compliance we had do it to show transparency on how the budget was arrived at and the benefits to be derived by our community from the municipality's programmes.

To the community of Letsemeng, although we would want to do far more than the mentioned elements as well as everything that is included in this budget, we can't do everything in one year or even in two years. The best thing about the future is that it only comes one day at a time.

Dis waarom ek alvorens ek afsluit die volgende positiewe inisiatiefe moet uitbeeld aan hierdie huis en die Letsemeng gemeenskap; wie ek met opregtheid en toewyding dien. In die 2012/2013 finansiele jaar gaan ons die volgende projekte aanpak en ons nooi die gemeenskap van Letsemeng uit om hand aan die ploeg te slaan om seker te maak dat ons voordeel trek uit hierdie inisiatiefe uit. Daar is 'n spreekwoord wat se "hoe gaan jy dit kry as jy in die hoek sit? So kom ons staan



saam en lig mekaar se hande omhoog, want die een hand het die ander hand nodig om meer mag te maak.

We are committed in keeping this municipality in a sound financial position; therefore we have ensured that we can afford everything we plan to do. I can without doubt state that the proposed 2012/13 multi-year budget attempts to support Letsemeng municipality's strategic role and will definitely contribute to improving the lives of the poorest of the poor.

Die plaaslike ekonomiese ontwikkeling begroting sit uiteen projekte vir plaaslike ontwikkeling as volg:-

Project Description	Funding Source	Estimated Budget	Beneficiaries	Project Timeframe
Development of local business skills (training)	Letsemeng Local Municipality	<b>100 000</b>	24 Local emerging businesses – 4 per town	July – August 2012
Training in basic and advanced skills development in lead Sectors	Letsemeng Local Municipality	<b>80 000</b>	12 Emerging farming groups – 2 per town	August – September 2012
SMME development projects/programmes (Beautification of entrances of towns and development of parks)	Letsemeng Local Municipality	<b>500 000</b>	All five towns	July 2012 – June 2013
Registration of Cooperatives and SMME's	Letsemeng Local Municipality	<b>36 000</b>	Registration of 60 Cooperatives and SMME's – 10 per town	July – September 2012
Outreach programmes on social infrastructure programmes	Letsemeng Local Municipality	<b>120 000</b>	Providing financial assistance on social programmes e.g. Launching Clubs, Disabled People etc	July 2012 – June 2013

Honourable Councillors, as I present the 2012/13 Medium Term Revenue & Expenditure Framework, I mention programs and initiatives that will impact on our communities to remind this Council of its task of maintaining the trust, passion and goodwill that has been fostered over many years. This budget and IDP is not simply a continuation of the past – it is indeed a passionate commitment to realising the Open, Opportunity Society for all the residents of Letsemeng.

In conclusion, I want to thank all Councillors for their continued support. I am indebted to the Accounting Officer, Senior Managers and the whole administrative staff. To my husband and children, thank you for your understanding and sacrifice, for all the days and nights that I did not spend with you.

Thank you

## **1.2. RESOLUTIONS**

1. Council hereby resolve that the annual budget of the municipality for the financial year 2012-13; and indicative budget for the two outer years 2013-14 and 2014-15 be approved as set-out in:
  - a) Table A1: Budgeted Summary
  - b) Table A2: Budget Financial Performance (revenue & expenditure by standard classification)
  - c) Table A3: Budget Financial Performance (revenue & expenditure by municipal vote)
  - d) Table A4: Budget Financial Performance (revenue & expenditure)
  - e) Table A5: Budgeted Capital Expenditure by vote, standard classification and funding
  - f) Table A6: Budget Financial Position
  - g) Table A7: Budget Cash Flow
  - h) Table A8: Cash backed reserves / accumulated surplus reconciliation
  - i) Table A9: Asset Management
  - j) Table A10: Basic Service Delivery Measurement
2. Council hereby resolve that Operating Budget as set out in Table A1 – A4 and Capital Budget as set out in Table A5 be implemented with effect from 01 July 2012;
3. Council hereby resolve that property rates tariff and tariffs for other services charges as reflected in the formal tariff list be approved and implemented with effect from 01 July 2012;
4. Council hereby resolve that increase in salaries for Municipal Manager; Senior Managers reporting to the Municipal Manager and other Municipal Officials be implemented with effect from 01 July 2012;

5. Council hereby resolve that a provision of 7.5 per cent increment be made for Councillor's Allowance and be implemented after the Upper Limits for Councillors have been gazetted;
6. Council hereby resolve that the following budget related policies be approved and be implemented with effect from the 01 July 2012:
  - a) Budget policy
  - b) Virement policy
  - c) Funding and reserves policy
  - d) Credit control and debt collection policy
  - e) Indigent support policy
  - f) Property rates policy
  - g) Tariffs policy
  - h) Supply chain management policy

### **1.3. EXECUTIVE SUMMARY**

This section provides an overview of the Letsemeng Local Municipality's 2012-13 to 2014-15 Medium Term Revenue and Expenditure Framework. It includes an assessment of how the budget links with the national and provincial government contexts along with a review of the fiscal position of municipality.

The Municipality's budget must be seen within the context of the policies and financial priorities of national, provincial and district government. In essence, the spheres of Government are partners in meeting the service delivery challenges faced by Letsemeng Local Municipality. The municipality alone cannot meet these challenges. It requires support from the other spheres of Government through the direct allocation of resources, both financial and non-financial as well as the achievement of their own policies.

Therefore the municipality's resources have been allocated taking into consideration the priorities as set out during the State of the Nation Address (SOPA), State of the Provincial Address as well as other guidelines as issued by other spheres of government. Despite this, the BTO experienced some challenges during the compilation of the 2012-13 MTREF which can be summarised as follows:

- (a) The on-going difficulties in the national and local economy and limited economic activities within Letsemeng municipality;

- (b) Aging and poorly maintained infrastructure with no capital maintenance plans to appropriately allocate resources towards maintenance;
- (c) The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality due to low revenue collection rates;
- (d) The increased cost of bulk water and electricity (due to tariff increases from Oranje Reit / Kulkfontein Dam and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable as there will be point where services will no-longer be affordable to the majority of the residents of Letsemeng Municipality (thereby increasing the debtors book of the municipality);
- (e) Theft of electricity and water through illegal connections and distribution losses;
- (f) The need to develop tariffs that are cost reflective of providing such services;
- (g) Wage increases (including long service bonuses) for municipal staff that continue to exceed consumer inflation as well as the need to fill critical vacancies;
- (h) The need to meet the community expectations in terms of service delivery with the limited financial resources at hand.

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- (a) Budgeting for a funded and credible annual budget as required by the MFMA compared to a balanced budgeted;
- (b) The 2011-12 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2012-13 annual budget;
- (c) Tariffs on services and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity;
- (d) There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act.

Total operating revenue has grown by R13.3 million for the 2012-13 financial year when compared to the 2011-12 Adjustments Budget to R102.3 million.

Total operating expenditure for the 2012-13 financial year has been appropriated at R101.8 million and translates into a budgeted surplus of R504 thousand. When compared to 2011-12 Adjustment Budget, operational expenditure has grown by R13.8 million in the 2012-13 budget.

The capital budget of R23.9 million for 2012-13 is approximately R1.7 million less when compared to the 2011-12 Adjustment Budget. The reduction is due to various projects being finalised in the previous financial year as well as affordability constraints in the light of current economic circumstances. Furthermore, water project at Petrusburg to the value of R5 million which was funded by Department of Water Affairs has not been provided for during the 2012-13 MTREF.

#### **1.4. ANNUAL BUDGET TABLES**

Below are the annual tables as per the requirements of Municipal Budget and Reporting Regulations:

- a. Table A1: Budget summary
- b. Table A2: Budgeted Financial Performance
- c. Table A3: Budgeted Financial Performance (revenue and expenditure by municipal vote)
- d. Table A4: Budgeted Financial Performance (revenue and expenditure)
- e. Table A5: Budgeted Capital Expenditure by vote, standard, classification and funding
- f. Table A6: Budgeted Financial Position
- g. Table A7: Budgeted Cash flow
- h. Table A8: Cash backed reserves/accumulated surplus reconciliation
- i. Table A9: Asset Management
- j. Table A10: Basic service delivery measurement

FS161 Letsemeng - Table A1 Budget Summary

Description	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
	Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>R thousands</b>										
<b>Financial Performance</b>										
Property rates	3 013	3 154	4 247	5 106	5 106	5 106	-	6 382	7 739	9 157
Service charges	20 157	16 004	23 053	34 055	34 055	34 055	-	40 406	42 669	44 973
Investment revenue	-	350	525	900	1 000	1 000	-	949	1 002	1 056
Transfers recognised - operational	24 894	55 022	59 068	48 235	48 235	48 235	-	53 833	56 760	61 301
Other own revenue	1 799	2 484	2 159	581	602	602	-	690	728	704
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>49 863</b>	<b>77 014</b>	<b>89 052</b>	<b>88 876</b>	<b>88 997</b>	<b>88 997</b>	<b>-</b>	<b>102 259</b>	<b>108 898</b>	<b>117 191</b>
Employee costs	13 750	18 686	21 680	23 693	26 475	26 475	-	33 257	35 087	36 841
Remuneration of councillors	1 761	1 725	2 082	2 795	3 228	3 228	-	2 600	2 743	2 880
Depreciation & asset impairment	950	6 683	21 355	1 278	1 038	1 038	-	1 298	1 371	1 367
Finance charges	232	972	1 351	62	63	63	-	66	70	73
Materials and bulk purchases	8 386	10 726	14 711	16 396	19 800	19 800	-	22 500	23 760	25 043
Transfers and grants	-	-	-	-	-	-	-	-	-	-
Other expenditure	5 815	12 350	18 996	44 379	37 396	37 396	-	42 034	37 651	39 448
<b>Total Expenditure</b>	<b>30 894</b>	<b>51 142</b>	<b>80 175</b>	<b>88 603</b>	<b>88 001</b>	<b>88 001</b>	<b>-</b>	<b>101 756</b>	<b>100 681</b>	<b>105 653</b>
<b>Surplus/(Deficit)</b>	<b>18 969</b>	<b>25 872</b>	<b>8 877</b>	<b>273</b>	<b>997</b>	<b>997</b>	<b>-</b>	<b>504</b>	<b>8 217</b>	<b>11 537</b>
Transfers recognised - capital	25 822	8 651	21 920	18 804	18 804	18 804	-	22 090	23 302	24 649
Contributions recognised - capital & contributed a	1 000	2 400	2 348	696	1 788	1 788	-	1 791	1 893	1 995
<b>Surplus/(Deficit) after capital transfers &amp; contributions</b>	<b>45 791</b>	<b>36 923</b>	<b>33 145</b>	<b>19 774</b>	<b>21 589</b>	<b>21 589</b>	<b>-</b>	<b>24 385</b>	<b>33 412</b>	<b>38 181</b>
Share of surplus/ (deficit) of associate	-	-	-	-	-	-	-	-	-	-
<b>Surplus/(Deficit) for the year</b>	<b>45 791</b>	<b>36 923</b>	<b>33 145</b>	<b>19 774</b>	<b>21 589</b>	<b>21 589</b>	<b>-</b>	<b>24 385</b>	<b>33 412</b>	<b>38 181</b>
<b>Capital expenditure &amp; funds sources</b>										
<b>Capital expenditure</b>	<b>26 822</b>	<b>11 051</b>	<b>24 268</b>	<b>19 500</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>23 881</b>	<b>25 195</b>	<b>26 644</b>
Transfers recognised - capital	25 822	8 651	21 920	18 804	23 804	23 804	-	22 090	23 302	24 649
Public contributions & donations	-	-	-	-	-	-	-	-	-	-
Borrowing	-	-	-	-	-	-	-	-	-	-
Internally generated funds	1 000	2 400	2 348	696	1 788	1 788	-	1 791	1 893	1 995
<b>Total sources of capital funds</b>	<b>26 822</b>	<b>11 051</b>	<b>24 268</b>	<b>19 500</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>23 881</b>	<b>25 195</b>	<b>26 644</b>
<b>Financial position</b>										
Total current assets	5 087	41 448	25 741	67 730	68 924	68 924	-	78 477	82 054	83 633
Total non current assets	135 042	151 541	160 851	247 730	1 220 417	1 220 417	-	254 419	267 140	280 497
Total current liabilities	14 561	4 284	4 021	2 207	14 658	14 658	-	6 736	6 323	6 511
Total non current liabilities	251 158	16 576	19 067	1 506	12 670	12 670	-	-	-	-
Community wealth/Equity	100 409	148 154	168 249	249 494	349 282	349 282	-	261 969	275 067	288 820
<b>Cash flows</b>										
Net cash from (used) operating	25 874	14 580	34 592	(8 519)	(17 752)	(17 752)	-	(27 491)	(30 022)	(34 968)
Net cash from (used) investing	(36 200)	(17 342)	(29 952)	18 726	25 592	25 592	-	28 594	30 032	31 644
Net cash from (used) financing	437	1 536	136	59	59	59	-	25	26	27
<b>Cash/cash equivalents at the year end</b>	<b>6 741</b>	<b>5 515</b>	<b>10 290</b>	<b>55 266</b>	<b>7 899</b>	<b>7 899</b>	<b>-</b>	<b>37 609</b>	<b>37 645</b>	<b>34 348</b>
<b>Cash backing/surplus reconciliation</b>										
Cash and investments available	(1 516)	7 168	7 695	45 028	50 865	50 865	-	53 479	56 153	56 876
Application of cash and investments	(593)	(15 509)	(18 224)	13 235	19 087	19 087	-	27 332	28 499	29 703
<b>Balance - surplus (shortfall)</b>	<b>(923)</b>	<b>22 677</b>	<b>25 919</b>	<b>31 793</b>	<b>31 778</b>	<b>31 778</b>	<b>-</b>	<b>26 147</b>	<b>27 654</b>	<b>27 173</b>
<b>Asset management</b>										
Asset register summary (WDV)	26 822	11 051	24 268	29 533	35 492	35 492	23 881	23 881	25 195	26 644
Depreciation & asset impairment	950	6 683	21 355	1 278	1 038	1 038	1 298	1 298	1 371	1 367
Renewal of Existing Assets	-	-	-	-	-	-	-	-	-	-
Repairs and Maintenance	2 036	2 105	14 686	4 728	5 863	5 863	5 045	5 045	5 327	5 533
<b>Free services</b>										
Cost of Free Basic Services provided	11 530	8 967	8 967	9 416	9 416	9 416	3 404	3 404	10 084	10 443
Revenue cost of free services provided	13 791	10 956	10 957	11 420	11 520	11 520	36 432	36 432	13 280	13 285
<b>Households below minimum service level</b>										
Water:	-	-	-	1	1	1	1	1	0	0
Sanitation/sewerage:	-	-	-	-	-	-	-	-	-	-
Energy:	-	-	-	1	1	1	1	1	1	1
Refuse:	-	-	-	8	8	8	9	9	9	9

FS161 Letsemeng - Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification)

Standard Classification Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>R thousand</b>	<b>1</b>									
<b>Revenue - Standard</b>										
<i><b>Governance and administration</b></i>		<b>4 452</b>	<b>3 997</b>	<b>6 567</b>	<b>11 757</b>	<b>11 858</b>	<b>11 858</b>	<b>13 956</b>	<b>15 677</b>	<b>17 926</b>
Executive and council		390	587	1 021	1 548	1 548	1 548	1 830	2 095	2 280
Budget and treasury office		3 211	2 574	4 364	9 214	9 315	9 315	10 951	12 257	14 185
Corporate services		851	836	1 182	995	995	995	1 175	1 325	1 460
<i><b>Community and public safety</b></i>		<b>1 891</b>	<b>1 870</b>	<b>2 360</b>	<b>2 348</b>	<b>2 363</b>	<b>2 363</b>	<b>2 881</b>	<b>3 295</b>	<b>3 664</b>
Community and social services		763	1 005	1 094	796	798	798	974	1 113	1 237
Sport and recreation		481	330	550	749	762	762	925	1 061	1 182
Public safety		600	528	649	741	741	741	916	1 051	1 172
Housing		47	8	68	62	62	62	66	69	73
Health		-	-	-	-	-	-	-	-	-
<i><b>Economic and environmental services</b></i>		<b>120</b>	<b>142</b>	<b>209</b>	<b>641</b>	<b>631</b>	<b>631</b>	<b>795</b>	<b>117</b>	<b>123</b>
Planning and development		28	-	115	536	536	536	685	-	-
Road transport		12	142	93	105	95	95	110	117	123
Environmental protection		80	-	-	-	-	-	-	-	-
<i><b>Trading services</b></i>		<b>43 411</b>	<b>57 092</b>	<b>64 489</b>	<b>74 131</b>	<b>74 145</b>	<b>74 145</b>	<b>84 626</b>	<b>89 810</b>	<b>95 478</b>
Electricity		11 451	20 632	25 729	28 093	28 110	28 110	36 475	37 962	41 786
Water		11 668	13 837	16 959	17 727	17 725	17 725	18 218	19 178	20 278
Waste water management		10 091	11 381	13 836	14 428	14 428	14 428	15 749	16 633	17 021
Waste management		10 202	11 242	7 965	13 883	13 881	13 881	14 184	16 036	16 392
<i><b>Other</b></i>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Revenue - Standard</b>	<b>2</b>	<b>49 873</b>	<b>63 102</b>	<b>73 625</b>	<b>88 877</b>	<b>88 997</b>	<b>88 997</b>	<b>102 259</b>	<b>108 898</b>	<b>117 190</b>
<b>Expenditure - Standard</b>										
<i><b>Governance and administration</b></i>		<b>5 823</b>	<b>17 921</b>	<b>13 394</b>	<b>20 330</b>	<b>24 427</b>	<b>24 427</b>	<b>32 918</b>	<b>28 278</b>	<b>29 514</b>
Executive and council		1 058	2 612	3 775	7 948	8 772	8 772	10 352	11 025	11 602
Budget and treasury office		3 831	7 212	2 500	9 168	11 228	11 228	17 110	11 368	11 823
Corporate services		935	8 097	7 119	3 215	4 427	4 427	5 456	5 885	6 088
<i><b>Community and public safety</b></i>		<b>5 307</b>	<b>1 365</b>	<b>2 103</b>	<b>3 531</b>	<b>2 979</b>	<b>2 979</b>	<b>4 748</b>	<b>5 020</b>	<b>5 192</b>
Community and social services		2 088	1 105	1 909	2 260	2 253	2 253	3 649	3 852	4 047
Sport and recreation		437	37	81	547	363	363	433	457	404
Public safety		454	-	-	600	306	306	610	644	679
Housing		90	-	5	17	9	9	20	23	16
Health		2 239	223	109	107	47	47	37	44	47
<i><b>Economic and environmental services</b></i>		<b>8 864</b>	<b>6 667</b>	<b>9 482</b>	<b>9 458</b>	<b>10 400</b>	<b>10 400</b>	<b>9 020</b>	<b>9 222</b>	<b>9 688</b>
Planning and development		-	2 809	3 321	3 165	2 219	2 219	1 075	1 157	1 219
Road transport		8 555	3 857	6 161	6 293	8 181	8 181	7 944	8 065	8 469
Environmental protection		309	-	-	-	-	-	-	-	-
<i><b>Trading services</b></i>		<b>29 661</b>	<b>20 375</b>	<b>26 187</b>	<b>55 284</b>	<b>50 195</b>	<b>50 195</b>	<b>55 070</b>	<b>58 160</b>	<b>61 259</b>
Electricity		11 313	12 093	16 202	25 794	25 612	25 612	28 167	29 775	31 375
Water		8 292	5 260	6 873	16 488	14 463	14 463	14 234	15 032	15 827
Waste water management		4 687	1 073	948	6 001	4 467	4 467	5 704	6 022	6 343
Waste management		5 370	1 949	2 163	7 002	5 653	5 653	6 967	7 331	7 714
<i><b>Other</b></i>	<b>4</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Expenditure - Standard</b>	<b>3</b>	<b>49 656</b>	<b>46 328</b>	<b>51 166</b>	<b>88 604</b>	<b>88 001</b>	<b>88 001</b>	<b>101 756</b>	<b>100 680</b>	<b>105 653</b>
<b>Surplus/(Deficit) for the year</b>		<b>218</b>	<b>16 773</b>	<b>22 459</b>	<b>273</b>	<b>997</b>	<b>997</b>	<b>503</b>	<b>8 217</b>	<b>11 537</b>

FS161 Letsemeng - Table A3 Budgeted Financial Performance (revenue and expenditure by municipal vote)

Vote Description  R thousand	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Revenue by Vote</b>	1									
Vote 1 - Budget and Treasury Office		3 211	2 574	4 364	9 214	9 315	9 315	10 951	12 257	14 185
Vote 2 - Corporate Services		1 360	836	1 182	995	995	995	1 175	1 325	1 460
Vote 3 - Council		480	587	1 021	774	774	774	914	1 043	1 172
Vote 4 - Technical Services		44 812	59 104	67 058	77 120	77 139	77 139	88 303	93 221	99 265
Vote 5 - Municipal Manager		-	-	-	774	774	774	916	1 051	1 108
Vote 6 - [NAME OF VOTE 6]		-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
<b>Total Revenue by Vote</b>	2	<b>49 863</b>	<b>63 102</b>	<b>73 625</b>	<b>88 877</b>	<b>88 997</b>	<b>88 997</b>	<b>102 259</b>	<b>108 898</b>	<b>117 190</b>
<b>Expenditure by Vote to be appropriated</b>	1									
Vote 1 - Budget and Treasury Office		3 831	7 212	2 500	9 168	11 228	11 228	17 110	11 368	11 823
Vote 2 - Corporate Services		2 165	8 097	7 119	3 215	4 427	4 427	5 456	5 885	6 088
Vote 3 - Council		1 058	2 612	3 775	4 849	5 436	5 436	5 798	6 125	6 445
Vote 4 - Technical Services		42 603	28 407	37 772	68 273	63 574	63 574	68 838	72 402	76 139
Vote 5 - Municipal Manager		-	-	-	3 099	3 335	3 335	4 553	4 901	5 157
Vote 6 - [NAME OF VOTE 6]		-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-
<b>Total Expenditure by Vote</b>	2	<b>49 656</b>	<b>46 328</b>	<b>51 166</b>	<b>88 604</b>	<b>88 001</b>	<b>88 001</b>	<b>101 756</b>	<b>100 680</b>	<b>105 653</b>
<b>Surplus/(Deficit) for the year</b>	2	<b>207</b>	<b>16 773</b>	<b>22 459</b>	<b>273</b>	<b>997</b>	<b>997</b>	<b>503</b>	<b>8 218</b>	<b>11 537</b>



FS161 Letsemeng - Table A5 Budgeted Capital Expenditure by vote, standard classification and funding

Vote Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>R thousand</b>	<b>1</b>										
<b>Capital expenditure - Vote</b>											
<b>Multi-year expenditure to be appropriated</b>	<b>2</b>										
Vote 1 - Budget and Treasury Office		-	-	-	-	-	-	-	-	-	-
Vote 2 - Corporate Services		-	-	-	-	-	-	-	-	-	-
Vote 3 - Council		-	-	-	-	-	-	-	-	-	-
Vote 4 - Technical Services		-	-	-	-	-	-	-	-	-	-
Vote 5 - Municipal Manager		-	-	-	-	-	-	-	-	-	-
Vote 6 - [NAME OF VOTE 6]		-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital multi-year expenditure sub-total</b>	<b>7</b>	-	-	-	-	-	-	-	-	-	-
<b>Single-year expenditure to be appropriated</b>	<b>2</b>										
Vote 1 - Budget and Treasury Office		295	-	573	73	73	73	-	115	121	128
Vote 2 - Corporate Services		-	32	55	18	36	36	-	53	57	60
Vote 3 - Council		-	-	279	79	47	47	-	50	53	56
Vote 4 - Technical Services		26 527	11 019	23 361	19 331	25 406	25 406	-	23 628	24 926	26 361
Vote 5 - Municipal Manager		-	-	-	-	30	30	-	35	37	39
Vote 6 - [NAME OF VOTE 6]		-	-	-	-	-	-	-	-	-	-
Vote 7 - [NAME OF VOTE 7]		-	-	-	-	-	-	-	-	-	-
Vote 8 - [NAME OF VOTE 8]		-	-	-	-	-	-	-	-	-	-
Vote 9 - [NAME OF VOTE 9]		-	-	-	-	-	-	-	-	-	-
Vote 10 - [NAME OF VOTE 10]		-	-	-	-	-	-	-	-	-	-
Vote 11 - [NAME OF VOTE 11]		-	-	-	-	-	-	-	-	-	-
Vote 12 - [NAME OF VOTE 12]		-	-	-	-	-	-	-	-	-	-
Vote 13 - [NAME OF VOTE 13]		-	-	-	-	-	-	-	-	-	-
Vote 14 - [NAME OF VOTE 14]		-	-	-	-	-	-	-	-	-	-
Vote 15 - [NAME OF VOTE 15]		-	-	-	-	-	-	-	-	-	-
<b>Capital single-year expenditure sub-total</b>		<b>26 822</b>	<b>11 051</b>	<b>24 268</b>	<b>19 500</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>23 881</b>	<b>25 195</b>	<b>26 644</b>
<b>Total Capital Expenditure - Vote</b>		<b>26 822</b>	<b>11 051</b>	<b>24 268</b>	<b>19 500</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>23 881</b>	<b>25 195</b>	<b>26 644</b>
<b>Capital Expenditure - Standard</b>											
<b>Governance and administration</b>		<b>295</b>	<b>32</b>	<b>907</b>	<b>169</b>	<b>186</b>	<b>186</b>	<b>-</b>	<b>253</b>	<b>268</b>	<b>283</b>
Executive and council				279	79	77	77		85	90	95
Budget and treasury office		295		573	73	73	73		115	121	128
Corporate services			32	55	18	36	36		53	57	60
<b>Community and public safety</b>		<b>7 133</b>	<b>4 409</b>	<b>4 409</b>	<b>240</b>	<b>150</b>	<b>150</b>	<b>-</b>	<b>12 335</b>	<b>2 622</b>	<b>2 572</b>
Community and social services		1 331				30	30		12 125	1 900	2 338
Sport and recreation											
Public safety		4 200	4 409	4 409	240	120	120		210	722	234
Housing		1 601									
Health											
<b>Economic and environmental services</b>		<b>17 000</b>	<b>4 256</b>	<b>7 721</b>	<b>12 408</b>	<b>12 308</b>	<b>12 308</b>	<b>-</b>	<b>9 026</b>	<b>10 622</b>	<b>10 629</b>
Planning and development		8 000	4 256	1 147	12	12	12		15	516	517
Road transport		9 000		6 574	12 396	12 296	12 296		9 011	10 107	10 112
Environmental protection											
<b>Trading services</b>		<b>2 394</b>	<b>1 974</b>	<b>5 159</b>	<b>6 016</b>	<b>12 283</b>	<b>12 283</b>	<b>-</b>	<b>1 599</b>	<b>11 013</b>	<b>12 460</b>
Electricity		1 500	545	1 174	8	270	270		152	1 000	169
Water		800	809	3 180	605	6 512	6 512		435	550	553
Waste water management		10	20	30	438	438	438		263	1 170	904
Waste management		84	600	775	4 966	5 063	5 063		750	8 292	10 835
<b>Other</b>			<b>380</b>	<b>6 072</b>	<b>667</b>	<b>665</b>	<b>665</b>		<b>668</b>	<b>669</b>	<b>700</b>
<b>Total Capital Expenditure - Standard</b>	<b>3</b>	<b>26 822</b>	<b>11 051</b>	<b>24 268</b>	<b>19 500</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>23 881</b>	<b>25 195</b>	<b>26 644</b>
<b>Funded by:</b>											
National Government		25 122	8 651	21 415	18 804	18 804	18 804		22 090	23 302	24 649
Provincial Government		700		505		5 000	5 000				
District Municipality											
Other transfers and grants											
<b>Transfers recognised - capital</b>	<b>4</b>	<b>25 822</b>	<b>8 651</b>	<b>21 920</b>	<b>18 804</b>	<b>23 804</b>	<b>23 804</b>	<b>-</b>	<b>22 090</b>	<b>23 302</b>	<b>24 649</b>
<b>Public contributions &amp; donations</b>	<b>5</b>										
<b>Borrowing</b>	<b>6</b>										
<b>Internally generated funds</b>		<b>1 000</b>	<b>2 400</b>	<b>2 348</b>	<b>696</b>	<b>1 788</b>	<b>1 788</b>		<b>1 791</b>	<b>1 893</b>	<b>1 995</b>
<b>Total Capital Funding</b>	<b>7</b>	<b>26 822</b>	<b>11 051</b>	<b>24 268</b>	<b>19 500</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>23 881</b>	<b>25 195</b>	<b>26 644</b>

FS161 Letsemeng - Table A6 Budgeted Financial Position

2011/12 Community Wealth Fund Budgets Financial Section											
Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
R thousand		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
ASSETS											
Current assets											
Cash		1	1	1 933	658	1 933	1 933		2 100	2 205	232
Call investment deposits	1	-	10 010	5 762	43 170	43 170	43 170	-	45 329	47 595	49 975
Consumer debtors	1	3 435	29 105	14 190	18 000	18 000	18 000	-	26 000	27 000	28 000
Other debtors		1 651	2 282	1 902	2 951	1 270	1 270		3 099	3 254	3 417
Current portion of long-term receivables					2 951	2 656	2 656				
Inventory	2	-	50	1 954	-	1 895	1 895		1 950	2 000	2 010
Total current assets		5 087	41 448	25 741	67 730	68 924	68 924	-	78 477	82 054	83 633
Non current assets											
Long-term receivables											
Investments		62		-	1 200	5 762	5 762		6 050	6 353	6 670
Investment property					9 988	9 855	9 855				
Investment in Associate											
Property, plant and equipment	3	134 947	151 525	160 793	236 497	160 793	160 793	-	248 322	260 738	273 775
Agricultural											
Biological											
Intangible		33	16	58	45	45	45		47	50	52
Other non-current assets						1 043 962	1 043 962				
Total non current assets		135 042	151 541	160 851	247 730	1 220 417	1 220 417	-	254 419	267 140	280 497
TOTAL ASSETS		140 129	192 989	186 592	315 460	1 289 341	1 289 341	-	332 896	349 194	364 130
LIABILITIES											
Current liabilities											
Bank overdraft	1	1 578	2 843								
Borrowing	4	2	-	-	-	8 487	8 487	-	-	-	-
Consumer deposits		510	569	643	701	643	643		736	773	811
Trade and other payables	4	12 470	-	1 995	-	-	-	-	500	550	600
Provisions			872	1 383	1 506	5 528	5 528		5 500	5 000	5 100
Total current liabilities		14 561	4 284	4 021	2 207	14 658	14 658	-	6 736	6 323	6 511
Non current liabilities											
Borrowing		-	-	-	-	-	-	-	-	-	-
Provisions		251 158	16 576	19 067	1 506	12 670	12 670	-	-	-	-
Total non current liabilities		251 158	16 576	19 067	1 506	12 670	12 670	-	-	-	-
TOTAL LIABILITIES		265 720	20 860	23 089	3 713	27 328	27 328	-	6 736	6 323	6 511
NET ASSETS	5	(125 591)	172 129	163 503	311 747	1 262 013	1 262 013	-	326 160	342 871	357 619
COMMUNITY WEALTH/EQUITY											
Accumulated Surplus/(Deficit)		37 665	74 585	168 068	249 494	168 068	168 068		261 969	275 067	288 820
Reserves	4	62 744	73 569	181	-	181 214	181 214	-	-	-	-
Minorities' interests											
TOTAL COMMUNITY WEALTH/EQUITY	5	100 409	148 154	168 249	249 494	349 282	349 282	-	261 969	275 067	288 820

**FS161 Letsemeng - Table A7 Budgeted Cash Flows**

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>R thousand</b>											
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>											
<b>Receipts</b>											
Ratepayers and other		52 027	10 688	37 014	(25 101)	(39 377)	(39 377)		(43 771)	(47 231)	(50 787)
Government - operating	1		45 859	48 002	(47 452)	(47 452)	(47 452)		(53 833)	(56 760)	(61 301)
Government - capital	1			12 718	(18 210)	(18 210)	(18 210)		(22 089)	(23 302)	(24 649)
Interest		1 497	2 021	1 947	(900)	(900)	(900)		(945)	(992)	(1 042)
Dividends		13	11	2	(8)	(8)	(8)		(9)	(10)	(11)
<b>Payments</b>											
Suppliers and employees		(27 494)	(43 027)	(64 015)	82 958	88 001	88 001		82 548	87 071	91 014
Finance charges		(170)	(972)	(1 076)	194	194	194		10 608	11 202	11 807
Transfers and Grants	1										
<b>NET CASH FROM/(USED) OPERATING ACTIVITIES</b>		<b>25 874</b>	<b>14 580</b>	<b>34 592</b>	<b>(8 519)</b>	<b>(17 752)</b>	<b>(17 752)</b>	<b>-</b>	<b>(27 491)</b>	<b>(30 022)</b>	<b>(34 968)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>											
<b>Receipts</b>											
Proceeds on disposal of PPE			-	133					142	144	148
Decrease (Increase) in non-current debtors									(150)	152	155
Decrease (increase) other non-current receivables									(80)	(85)	(90)
Decrease (increase) in non-current investments		(36 200)	(17 342)	(30 085)					5 800	5 850	5 900
<b>Payments</b>											
Capital assets					18 726	25 592	25 592		22 882	23 971	25 531
<b>NET CASH FROM/(USED) INVESTING ACTIVITIES</b>		<b>(36 200)</b>	<b>(17 342)</b>	<b>(29 952)</b>	<b>18 726</b>	<b>25 592</b>	<b>25 592</b>	<b>-</b>	<b>28 594</b>	<b>30 032</b>	<b>31 644</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>											
<b>Receipts</b>											
Short term loans											
Borrowing long term/refinancing		438	1 536	136							
Increase (decrease) in consumer deposits		(1)			59	59	59		25	26	27
<b>Payments</b>											
Repayment of borrowing											
<b>NET CASH FROM/(USED) FINANCING ACTIVITIES</b>		<b>437</b>	<b>1 536</b>	<b>136</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>-</b>	<b>25</b>	<b>26</b>	<b>27</b>
<b>NET INCREASE/ (DECREASE) IN CASH HELD</b>		<b>(9 889)</b>	<b>(1 226)</b>	<b>4 775</b>	<b>10 266</b>	<b>7 899</b>	<b>7 899</b>	<b>-</b>	<b>1 128</b>	<b>36</b>	<b>(3 297)</b>
Cash/cash equivalents at the year begin:	2	<b>16 630</b>	<b>6 741</b>	<b>5 515</b>	<b>45 000</b>			<b>-</b>	<b>36 481</b>	<b>37 609</b>	<b>37 645</b>
Cash/cash equivalents at the year end:	2	<b>6 741</b>	<b>5 515</b>	<b>10 290</b>	<b>55 266</b>	<b>7 899</b>	<b>7 899</b>	<b>-</b>	<b>37 609</b>	<b>37 645</b>	<b>34 348</b>

FS161 Letsemeng - Table A8 Cash backed reserves/accumulated surplus reconciliation

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12				2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Pre-audit outcome	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
R thousand											
<b>Cash and investments available</b>											
Cash/cash equivalents at the year end	1	6 741	5 515	10 290	55 266	7 899	7 899	-	37 609	37 645	34 348
Other current investments > 90 days		(8 319)	1 653	(2 595)	(11 438)	37 204	37 204	-	9 820	12 155	15 858
Non current assets - Investments	1	62	-	-	1 200	5 762	5 762	-	6 050	6 353	6 670
<b>Cash and investments available:</b>		<b>(1 516)</b>	<b>7 168</b>	<b>7 695</b>	<b>45 028</b>	<b>50 865</b>	<b>50 865</b>	<b>-</b>	<b>53 479</b>	<b>56 153</b>	<b>56 876</b>
<b>Application of cash and investments</b>											
Unspent conditional transfers		5 792	-	1 995	-	-	-	-	-	-	-
Unspent borrowing		-	-	-	-	-	-	-	-	-	-
Statutory requirements	2										
Other working capital requirements	3	(6 385)	(15 509)	(20 219)	13 235	19 087	19 087	-	27 332	28 499	29 703
Other provisions											
Long term investments committed	4	-	-	-	-	-	-	-	-	-	-
Reserves to be backed by cash/investments	5										
<b>Total Application of cash and investments:</b>		<b>(593)</b>	<b>(15 509)</b>	<b>(18 224)</b>	<b>13 235</b>	<b>19 087</b>	<b>19 087</b>	<b>-</b>	<b>27 332</b>	<b>28 499</b>	<b>29 703</b>
<b>Surplus(shortfall)</b>		<b>(923)</b>	<b>22 677</b>	<b>25 919</b>	<b>31 793</b>	<b>31 778</b>	<b>31 778</b>	<b>-</b>	<b>26 147</b>	<b>27 654</b>	<b>27 173</b>

FS161 Letsemeng - Table A9 Asset Management

PS 101 Letseneng - Table A9 Asset management										
Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Audited Outcome	Audited Outcome	Audited Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
R thousand										
CAPITAL EXPENDITURE										
<b>Total New Assets</b>	1	26 822	11 051	24 268	19 545	25 592	25 592	23 881	25 195	26 644
Infrastructure - Road transport		9 000	-	5 984	12 396	12 296	12 296	9 011	10 107	10 112
Infrastructure - Electricity		-	545	3 180	8	270	270	152	1 000	169
Infrastructure - Water		800	809	30	605	6 512	6 512	435	550	553
Infrastructure - Sanitation		-	20	775	438	438	438	263	1 170	904
Infrastructure - Other		658	600	598	6 054	6 076	6 076	750	8 292	10 835
Infrastructure		10 458	1 974	10 567	19 500	25 592	25 592	10 610	21 119	22 572
Community		16 331	-	-	-	-	-	12 125	1 900	2 338
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	9 061	13 642	-	-	-	-	-	-
Other assets	6	-	-	-	-	-	-	1 098	2 126	1 681
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		33	16	58	45	-	-	47	50	52
<b>Total Renewal of Existing Assets</b>	2	-	-	-	-	-	-	-	-	-
Infrastructure - Road transport		-	-	-	-	-	-	-	-	-
Infrastructure - Electricity		-	-	-	-	-	-	-	-	-
Infrastructure - Water		-	-	-	-	-	-	-	-	-
Infrastructure - Sanitation		-	-	-	-	-	-	-	-	-
Infrastructure - Other		-	-	-	-	-	-	-	-	-
Infrastructure		-	-	-	-	-	-	-	-	-
Community		-	-	-	-	-	-	-	-	-
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6	-	-	-	-	-	-	-	-	-
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		-	-	-	-	-	-	-	-	-
<b>Total Capital Expenditure</b>	4	-	-	-	-	-	-	-	-	-
Infrastructure - Road transport		9 000	-	5 984	12 396	12 296	12 296	9 011	10 107	10 112
Infrastructure - Electricity		-	545	3 180	8	270	270	152	1 000	169
Infrastructure - Water		800	809	30	605	6 512	6 512	435	550	553
Infrastructure - Sanitation		-	20	775	438	438	438	263	1 170	904
Infrastructure - Other		658	600	598	6 054	6 076	6 076	750	8 292	10 835
Infrastructure		10 458	1 974	10 567	19 500	25 592	25 592	10 610	21 119	22 572
Community		16 331	-	-	-	-	-	12 125	1 900	2 338
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	9 061	13 642	-	-	-	-	-	-
Other assets	6	-	-	-	-	-	-	1 098	2 126	1 681
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		33	16	58	45	-	-	47	50	52
TOTAL CAPITAL EXPENDITURE - Asset class	2	26 822	11 051	24 268	19 545	25 592	25 592	23 881	25 195	26 644
ASSET REGISTER SUMMARY - PPE (WDV)										
Infrastructure - Road transport	5	9 000	-	5 984	12 396	12 296	12 296	9 011	10 107	10 112
Infrastructure - Electricity		-	545	3 180	8	270	270	152	1 000	169
Infrastructure - Water		800	809	30	605	6 512	6 512	435	550	553
Infrastructure - Sanitation		-	20	775	438	438	438	263	1 170	904
Infrastructure - Other		658	600	598	6 054	6 076	6 076	750	8 292	10 835
Infrastructure		10 458	1 974	10 568	19 500	25 592	25 592	10 610	21 119	22 572
Community		1 331	-	-	-	-	-	12 125	1 900	2 338
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	9 988	9 855	9 855	-	-	-
Other assets		15 000	9 061	13 642	-	-	-	1 098	2 126	1 681
Agricultural Assets		-	-	-	-	-	-	-	-	-
Biological assets		-	-	-	-	-	-	-	-	-
Intangibles		33	16	58	45	45	45	47	50	52
TOTAL ASSET REGISTER SUMMARY - PPE (WDV)	5	26 822	11 051	24 268	29 533	35 492	35 492	23 881	25 195	26 644
EXPENDITURE OTHER ITEMS										
<b>Depreciation &amp; asset impairment</b>		950	6 683	21 355	1 278	1 038	1 038	1 298	1 371	1 367
<b>Repairs and Maintenance by Asset Class</b>	3	2 036	2 105	14 686	4 728	5 863	5 863	5 045	5 327	5 533
Infrastructure - Road transport		-	736	1 620	1 590	2 707	2 707	1 716	1 812	1 910
Infrastructure - Electricity		-	447	838	761	959	959	802	847	893
Infrastructure - Water		-	185	431	468	826	826	493	521	549
Infrastructure - Sanitation		-	299	132	824	219	219	869	917	967
Infrastructure - Other		-	68	138	168	251	251	178	187	198
Infrastructure		-	1 734	3 158	3 811	4 962	4 962	4 057	4 285	4 516
Community		-	84	255	400	426	426	498	526	476
Heritage assets		-	-	-	-	-	-	-	-	-
Investment properties		-	-	-	-	-	-	-	-	-
Other assets	6, 7	2 036	287	11 272	518	475	475	490	517	540
TOTAL EXPENDITURE OTHER ITEMS		2 986	8 788	36 041	6 006	6 901	6 901	6 343	6 698	6 900

FS161 Letsemeng - Table A10 Basic service delivery measurement

Description	Ref	2008/9	2009/10	2010/11	Current Year 2011/12			2012/13 Medium Term Revenue & Expenditure Framework		
		Outcome	Outcome	Outcome	Original Budget	Adjusted Budget	Full Year Forecast	Budget Year 2012/13	Budget Year +1 2013/14	Budget Year +2 2014/15
<b>Household service targets</b>	1									
<b>Water:</b>										
Piped water inside dwelling		8	10	10	10	10	10	10	10	10
Piped water inside yard (but not in dwelling)										
Using public tap (at least min.service level)	2									
Other water supply (at least min.service level)	4									
<i>Minimum Service Level and Above sub-total</i>		8	10	10	10	10	10	10	10	10
Using public tap (< min.service level)	3				800	800	800	500	450	300
Other water supply (< min.service level)	4									
No water supply										
<i>Below Minimum Service Level sub-total</i>		—	—	—	800	800	800	500	450	300
<b>Total number of households</b>	5	8	10	10	810	810	810	510	460	310
<b>Sanitation/sewerage:</b>										
Flush toilet (connected to sewerage)		8	10	10	10	10	10	10	10	10
Flush toilet (with septic tank)										
Chemical toilet										
Pit toilet (ventilated)										
Other toilet provisions (> min.service level)										
<i>Minimum Service Level and Above sub-total</i>		8	10	10	10	10	10	10	10	10
Bucket toilet					—	—	—	—	—	—
Other toilet provisions (< min.service level)					—	—	—	—	—	—
No toilet provisions					—	—	—	—	—	—
<i>Below Minimum Service Level sub-total</i>		—	—	—	—	—	—	—	—	—
<b>Total number of households</b>	5	8	10	10	10	10	10	10	10	10
<b>Energy:</b>										
Electricity (at least min.service level)										
Electricity - prepaid (min.service level)		8	10	10	10	10	10	10	10	10
<i>Minimum Service Level and Above sub-total</i>		8	10	10	10	10	10	10	10	10
Electricity (< min.service level)					704	704	704	800	900	1 000
Electricity - prepaid (< min. service level)										
Other energy sources										
<i>Below Minimum Service Level sub-total</i>		—	—	—	704	704	704	800	900	1 000
<b>Total number of households</b>	5	8	10	10	714	714	714	810	910	1 010
<b>Refuse:</b>										
Removed at least once a week		8	10	10	10	10	10	10	10	10
<i>Minimum Service Level and Above sub-total</i>		8	10	10	10	10	10	10	10	10
Removed less frequently than once a week										
Using communal refuse dump										
Using own refuse dump					8 291	8 291	8 291	9 000	9 100	9 200
Other rubbish disposal										
No rubbish disposal										
<i>Below Minimum Service Level sub-total</i>		—	—	—	8 291	8 291	8 291	9 000	9 100	9 200
<b>Total number of households</b>	5	8	10	10	8 301	8 301	8 301	9 010	9 110	9 210
<b>Households receiving Free Basic Service</b>	7									
Water (6 kilolitres per household per month)		8	10	10	10	10	10	10	10	10
Sanitation (free minimum level service)		5	6	6	6	6	6	6	6	6
Electricity/other energy (50kwh per household per month)		5	10	10	10	10	10	10	10	10
Refuse (removed at least once a week)		5	10	10	10	10	10	10	10	10
<b>Cost of Free Basic Services provided (R'000)</b>	8									
Water (6 kilolitres per household per month)		3 159	2 754	2 754	2 892	2 892	2 892	2 446	2 892	2 892
Sanitation (free sanitation service)		3 105	3 105	3 105	3 260	3 260	3 260	389	3 594	3 774
Electricity/other energy (50kwh per household per month)		2 161	2 754	2 892	3 036	3 036	3 036	180 063	3 187	3 187
Refuse (removed once a week)		3 105	3 105	3 105	3 260	3 260	3 260	389	3 594	3 774
<b>Total cost of FBS provided (minimum social package)</b>		11 530	8 967	8 967	9 416	9 416	9 416	3 404	10 084	10 443
<b>Highest level of free service provided</b>										
Property rates (R value threshold)		30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000	30 000
Water (kilolitres per household per month)		6	6	6	6	6	6	6	6	6
Sanitation (kilolitres per household per month)										
Sanitation (Rand per household per month)		56	55	55	60	60	60	80	80	80
Electricity (kwh per household per month)		50	50	50	50	50	50	50	50	50
Refuse (average litres per week)		30	30	30	30	30	30	30	30	30
<b>Revenue cost of free services provided (R'000)</b>	9									
Property rates (R15 000 threshold rebate)		1 891	556	557	570	570	570	600	600	600
Property rates (other exemptions, reductions and rebates)										
Water		3 300	5 000	5 000	5 500	5 500	5 500	25 751	6 000	6 000
Sanitation		3 200	2 900	2 900	3 000	3 000	3 000	4 093	4 000	4 000
Electricity/other energy		2 200	1 500	1 500	1 550	1 600	1 650	1 895	1 750	1 750
Refuse		3 200	1 000	1 000	800	850	850	4 093	930	935
Municipal Housing - rental rebates										
Housing - top structure subsidies										
Other										
<b>Total revenue cost of free services provided (total social package)</b>	6	13 791	10 956	10 957	11 420	11 520	11 570	36 432	13 280	13 285

## **PART 2**

### **2.1. BUDGET PROCESS**

Section 53 of the MFMA requires the Mayor of the municipality to provide general political guidance in the budget process and the setting of priorities that must guide the preparation of the budget. In addition, Chapter 2 of the Municipal Budget and Reporting Regulations states that the Mayor of the municipality must establish a Budget Steering Committee to provide technical assistance to the Mayor in discharging the responsibilities set out in section 53 of the Act.

In terms of section 21 of the MFMA the Mayor is required to table in Council ten months before the start of the new financial year (i.e. in August 2011) a time schedule that sets out the process to revise the IDP and prepare the annual budget.

The Mayor tabled the required IDP process plan and budget timeline schedule in line with the applicable legislation. However, adherence to these plans was not achieved as the processes were not undertaken exactly at the dates that were indicated in the plans.

The political oversight was provided by the Council on the budget process. The budget was discussed and interrogated at the committee level (i.e. Finance Committee; Infrastructure Committee and Human Resource Committee). Provincial Treasury also provided inputs through the budget bilateral with the municipality based on the outcome of the assessment of the tabled budget.

The community and other stakeholders were consulted during the review of Integrated Development Plan which informed this annual budget. Further consultation took place immediately after the annual budget and revised Integrated Development Plan were tabled to Council which ran till May 2012. Despite major deviations from the schedules, plans were put in place for Council to consider approval of the IDP and annual budget at least before the end of the current financial year as required by the Municipal Finance Management Act.

### **2.2. Alignment of the annual budget with the integrated development plan**

The municipality has experienced challenges in terms of aligning its integrated development plan; annual budget and service delivery & budget implementation plan. This was also an audit query raised by the office of the Auditor General during the 2010-11 audit, that there is no alignment between the integrated development plan; annual budget and service delivery & budget implementation plan.

During the assessment it became evident that the IDP review process plan as well as the annual budget process, are not running concurrently as required. Furthermore, the consultation process is artificial as stakeholders are informed about the plans and objectives of the municipality rather the stakeholders influencing these plans as they are directly affecting them.

Therefore, management must pay special attention to aligning the above mentioned processes and ensuring genuine consultation of the stakeholders during the review of the IDP and annual budget compilation. Furthermore, the performance management framework must be fully functional and effective to ensure that a credible SDBIP is compiled which is fully linked to both the IDP and MTREF.

### **2.3. Measurable performance objectives**

Performance Management is a system intended to manage and monitor service delivery progress against the predetermined strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the municipality has developed a performance management system (in the process of implementation) of which system is constantly refined as the integrated planning process unfolds. The measurable performance objectives will be included in the service delivery and budget implementation plan when it is submitted to the Mayor for approval (subsequent to the approval of the IDP and MTREF by Council).

### **2.4. Overview of the budget-related policies**

The Municipal Budget and Reporting Regulations promulgated under the Municipal Finance Management Act, prescribe the budget-related policies that must be approved together with the budget. Although the municipality has complied in terms of compiling such policies and have them approved by Council, there has been major challenges (both internal and external) when it comes to implementation and adherence to such policies. Below is the overview of the policies that will be reviewed:

#### **2.4.1 Credit control and debt collection policy**

The current credit control and debt collection policy was approved by Council on the 13 May 2011, and the policy will once again undergo a review process. While the adopted policy is credible and there is value for money, there has been a great challenge in terms of its effective implementation. The absence of approved credit control procedures also led to audit queries being raised by Auditor General.

There was no annual updating and purification of the indigent register for the past year. However, there is improvement in terms of the registration process during the beginning of the 2011-12. A report is submitted, together with the quarterly report required in terms of the MFMA, where council is informed about the number of indigents that were registered at specific point in time.

#### **2.4.2. Review of the asset management policy**

A proxy for asset consumption can be considered the level of depreciation each asset incurs on an annual basis. Preserving the investment in existing infrastructure needs to be considered a significant strategy in ensuring the future sustainability of infrastructure and the municipality's revenue base. Within the



framework, the need for asset renewal was considered a priority and hence the capital programme was determined based on renewal of current assets versus new asset construction.

The Technical Department is in the process of developing maintenance plan for all the municipal assets. This will ensure the municipal assets are properly maintained and thereby operating at their optimum level. Furthermore, the municipality has appointed a service provider to assist with unbundling and componentisation of infrastructure assets. One of the assertions thereon is the valuation and condition assessment. This process will not only improve the municipality's audit opinion (given that the municipality received a disclaimer opinion from AGSA based on assets) but also improve the allocation of resources and service delivery.

#### **2.4.3 Budget and virement policies**

Council in its sitting of the 13 May 2011 approved both the budget policy and virement policy distinct from each other. These policies are aimed at guiding the municipality in terms of compiling a credible and funded budget as required by the MFMA and also to guide the municipality in terms of shifting of funds during the financial year. In addition to these policies, the mid-year budget assessment is used to guide and inform the mid-year performance review and adjustment budget process.

#### **2.4.4 Supply chain management policy**

The Supply Chain Management Policy was adopted by Council in September 2007. The policy was drafted in such manner that it was difficult for the municipality to adhere to the policy. Therefore, there was exorbitant amount that had to be disclosed as irregular expenditure due to non-adherence to the policy given the staff complement that is in place (staff being unable to implement the SCM policy).

The policy was then reviewed and adopted by council on the 13 May 2011. The policy was subjected to further reviews in October 2011 (to give the Accounting Officer the authority to appoint consultants through a roster system). The last amendment was done during December 2011 subsequent to promulgation of the Preferential Procurement Regulations, 2011.

#### **2.4.5 Cash management and investment policy**

The cash management and investment policy was amended by Council in May 2011. The aim of the policy is to ensure that the municipality's surplus cash and investments are adequately managed, especially the funds set aside for the cash backing of certain reserves.

#### **2.4.6. Tariff policies**

The municipality's tariff policies provide a broad framework within which the Council can determine fair, transparent and affordable charges that also promote sustainable service delivery. The policies have been approved on various dates and a consolidated tariff policy is envisaged to be compiled for ease of administration

and implementation of the next two years. The challenge still remains of ensuring that all proposed tariffs reflect the cost of providing such services.

#### **2.4.7. Indigent support policy**

The indigent support policy was last reviewed during May 2011 and this policy prescribes the threshold for indigent consumers as well as the free basic service component. The municipality has been experiencing problems where indigent consumers have been utilising services above the threshold thereby being unable to pay for the services, especially on water. Therefore the Municipality is in the process of procuring water meters that can restrict consumption to the prescribed threshold for indigent consumers.

### **2.5. Overview of the budget assumptions**

Budgets are prepared in an environment of uncertainty and assumptions need to be made about internal and external factors that could impact on the budget during the course of the financial year. In compiling the 2012-13 MTREF, the following pivotal issues and assumptions were taken into consideration and modelled into the budget planning process:

- (a) Economic climate and poverty levels within the municipality will remain the same / constant for major part of the financial year given the limited economic activities with the vicinity;
- (b) That the revenue collection will not increase / improve by more than 15% from the 2011-12 financial year;
- (c) Cash flow projections will be strictly maintained to ensure the municipality's ability to meet its financial obligations;
- (d) No allocations as per the 2012 annual Division of Revenue Act will be withheld / offset / paid back to the NRF.
- (e) Operational costs will be maintained at current levels or reduced as cost containment measures and where there is material decrease in revenue collection rate, expenditure will have to be reduced at the same proportion;
- (f) Filling of vacant posts will be prioritised taking into account the cash flow projections of the municipality.

### **2.6. Overview of the budget funding**

The operating budget will be funded from operational grants as well as revenue to be collected from service charges and property rates. Government grants and subsidies make 53% of the budget while 47% will be funding from own sources.

<b>SUMMARY: 2012-13 MTREF</b>				
<b>DETAILS</b>	<b>2011-12 ADJ</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Property rates	5 106 000	6 382 000	7 739 000	9 157 000
Service charges	34 055 000	40 406 000	42 669 000	44 973 000
Investment	1 000 000	949 000	1 002 000	1 056 000
Transfers recognised: operating	48 235 000	53 833 000	56 760 000	61 301 000
Other revenue	602 000	690 000	728 000	704 000
<b>Total revenue</b>	<b>88 998 000</b>	<b>102 260 000</b>	<b>108 898 000</b>	<b>117 191 000</b>
Employee costs	26 475 000	33 257 000	35 413 000	38 246 000
Councillor allowances	3 228 000	2 600 000	3 700 000	3 800 000
Bulk purchases: Water	1 900 000	2 100 000	2 217 600	2 337 350
Bulk purchases: Electricity	17 900 000	20 400 000	21 542 400	22 705 690
Repairs and maintenance	5 863 000	4 984 000	5 263 000	5 548 000
Other expenses	32 635 324	38 415 000	32 545 000	33 016 000
<b>Total expenses</b>	<b>88 001 324</b>	<b>101 756 000</b>	<b>100 681 000</b>	<b>105 653 040</b>
<b>Operating Surplus (deficit)</b>	<b>996 676</b>	<b>504 000</b>	<b>8 217 000</b>	<b>11 537 960</b>

The funding for capital budget will be from Municipal Infrastructure Grant as well as internally generated funds. Municipal Infrastructure Grant will fund 97% of the capital budget while 3% will be from internally generated funds.

<b>SUMMARY: 2012-13 MTREF</b>				
<b>DETAILS</b>	<b>2011-12 ADJ</b>	<b>2012-13</b>	<b>2013-14</b>	<b>2014-15</b>
Waste water management	438 000	750 000	8 292 000	10 835 000
Water	6 512 000	263 000	1 170 000	904 000
Roads	12 296 000	9 011 000	10 107 000	10 112 000
Public safety	120 000	210 000	722 000	234 000
Electricity	270 000	152 000	1 000 000	169 000
Waste management	5 063 000	668 000	669 000	700 000
Executive and council	77 000	85 000	90 000	95 000
Budget and treasury office	73 000	115 000	121 000	128 000
Corporate services	36 000	53 000	57 000	60 000
Community services	30 000	12 125 000	1 900 000	2 338 000
Other	677 000	449 000	1 067 000	1 069 000
<b>Total capital expenditure</b>	<b>25 592 000</b>	<b>23 881 000</b>	<b>25 195 000</b>	<b>26 644 000</b>
Capital grants	23 804 000	22 090 000	23 302 000	24 649 000
Own contribution	1 788 000	1 791 000	1 893 000	1 995 000
<b>Total expenses</b>	<b>25 592 000</b>	<b>23 881 000</b>	<b>25 195 000</b>	<b>26 644 000</b>

## 2.7. Expenditure on allocations and grant programmes

It is the intention of the municipality to spend all of its grant allocations within the current year according to the conditions of such allocations. Performance will be done during the mid-year budget assessment and where it is foreseeable that there will be under-spending, the necessary procedure will be followed to request for roll-over. Project registration has already taken place for major capital projects and this on its own will improve the spending on conditional grants. The municipality has been able to spend all its capital grants despite inappropriate planning.

<b>PERFORMANCE ON CONDITIONAL GRANTS AS AT 30 APRIL 2012</b>				
<b>GRANT NAME</b>	<b>GRANT AMOUNT</b>	<b>YEAR TO DATE</b>		<b>UNSPENT TRANSFER</b>
		<b>Spending</b>	<b>%</b>	
Finance Management Grant	1 450 000	1 355 975	94%	94 025
Municipal System Improvement Grant	790 000	390 924	49%	399 076
Municipal Infrastructure Grant	18 210 000	11 711 424	64%	6 498 576
Integrated National Electrification Programme	594 000	512 623	86%	81 377
<b>TOTAL GRANTS</b>	<b>21 044 000</b>	<b>13 970 946</b>	<b>66%</b>	<b>7 073 054</b>

Above is the grant amount received and expenditure year-to-date thereon for financial period 2011/12. There is no under spending on conditional expected as the MSIG was earmarked for the Valuation Roll and a bulk of expenditure has been made during the May 2012. The expenditure on MIG has also increased during May 2012, subsequent to awarding of tender for the Multi-purpose Community Centre.

<b>GRANT ALLOCATION AS PER DoRA</b>			
<b>GRANT NAME</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>
Equitable share	50 533 000	54 390 000	58 601 000
Finance Management Grant	1 500 000	1 500 000	1 750 000
Municipal System Improvement Grant	800 000	870 000	950 000
Municipal Infrastructure Grant	22 090 000	23 302 000	26 649 000
Expanded Public Works Programme	1 000 000	-	-

The above table shows the allocated grants to the municipality over the Medium Term Revenue and Expenditure Framework.

## **2.8. Allocations and grants made by the municipality**

There are no allocations and grants that the municipality intend to make during the 2012-13 medium term revenue and expenditure framework.

## **2.9. Councillor and board members allowances and employee benefits**

The Municipal System Act, section 66(1) requires the Municipal Manager to approve a staff establishment for the municipality within a policy framework determined by the municipal council and subject to any applicable legislation. The act further requires the Municipal Manager to provide a job description for each post on the staff establishment and to attach to those posts the remuneration and other conditions of service as may be determined in accordance with any applicable labour legislation.

The Senior Managers, in consultation and with concurrence of the Municipal Manager have reviewed the structure of their respective departments. Critical posts have been identified which other will be filled during the current financial year and other during the 2012-13 financial year.

This review of the organogram has led to increase in employee related costs and benefits. The overall Councillor's allowances and employee benefits increases are as follows:

(a) Employee costs will increase from R26.4 million (2011-12 adjustment budget) to R33.3 million;

(b) Councillor allowances will decrease from R3.2 million (2011-12 adjustment budget) to R2.6 million;

The decrease is as a result of the fact that Councillors are not paid in accordance with the Upper limits on remuneration of councillors which was not the case in previous years. Also when looking at the audited figure for the 2010-11, there is a marginal increase.

This shows that salaries have increased with R9.6 million since July 2011. Of a concern is the fact the revenue did not increase with the same rate which brings a serious threat in terms of the financial sustainability of the municipality. Auditor General of South Africa, has already raised a concern in terms of the going concern of the municipality.

Therefore, this means that as much as the municipality wants to fill critical vacant posts, such post must be prioritised. Expenditure thereon must be in the same proportion as the additional revenue.

## **2.10. Monthly targets of revenue, expenditure and cash flow**

The municipality has over the years been in a position to bill all its budgeted revenue. However, the challenges have been on revenue collection due to a number of factors both internal and external.

This meant that the municipality had to prioritise its spending as the spending is informed by availability of cash. Therefore, the spending on operational expenditure has been marginally less than anticipated due to cash flow constraints. Nevertheless, the municipality has been able to meet its financial obligations as they become due, during the course of the 2011-12.

Although the municipality has been operating with a positive cash flow balance for over three financial years, the revenue base of the municipality has decreased drastically. This meant that the municipality had very little to contribute towards capital expenditure. To date, the municipality contributes less than 5% towards capital budget and depend heavily on grants and subsidies from both national and provincial government, for its operational budget.

## **2.11. Annual budgets and service delivery and budget implementation plan: internal departments**

The departmental service delivery implementation plan are at a draft stage and will be completed after adoption of the annual budget in order to form the high level of the municipal service delivery and budget implementation plan to be approved by the mayor, 28 days after the annual budget has been approved.

## **2.12. Annual budgets and service delivery agreements: municipal entities and other external mechanisms**

The municipality does not have an entity and there are no services that are provided by through external mechanism.

### **2.13. Contracts having future budgetary implications**

The municipality does not intend to enter into contracts that have future budgetary implications. In terms of the municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must obtain formal financial comments from the BTO.

### **2.14. Capital expenditure details**

The total capital expenditure budget of the municipality is R23.9 million. The details of the major capital expenditure budget are as follows:

Luckhoff: Construction of street and stormwater	R 700 000
Jacobsdal: Construction of Ratanang access road	R 8 209 585
Koffiefontein: Multi-purpose community centre	R12 125 315

The other balance on the MIG will be funding the PMU related costs. The other funding is from internal funds as indicated in Table A5.

### **2.15. Legislation compliance**

Due to capacity constraints, the municipality has been experiencing challenges in terms of compliance to MFMA. However, there has been substantial improvement in terms of compliance. Reporting to National Treasury in electronic format (Appendix B returns) was fully complied with on a monthly basis where there have been challenges of compliance, such challenges were reported to Provincial Treasury.

#### **2.15.1. In year reporting**

Section 71 reporting to the Mayor will be submitted in Schedule C of the MBRR and plans are in place to update the website and published financial performance on the municipality's website. It is the intention of the municipality (Councillors and Management) to move beyond compliance but rather focus on the quality of reports that are required in terms of various legislations.

#### **2.15.2. Internship programme**

The municipality is participating in the Municipal Financial Management Internship programme and has employed five interns undergoing training in various divisions of the Budget and Treasury Office. Due to inappropriate training, their contracts were extended with additional 12 months till September 2012. This was to ensure proper training and mentoring, subsequent to the appointment of the CFO in

January 2011 and also to ensure that they finish their external training which is running till April 2012.

Of the five interns one has resigned during the course of the 2011-12 financial year. The remaining four will finish their external training with the DBSA Vulindlela Academy during April 2012 and their contracts will subsequently expire by the end of September 2012. The municipality will advertise and recruit five interns, which are expected to start their internship program with the municipality by October 2012.

#### **2.15.3. Budget and Treasury Office**

The Budget and Treasury Office has been established in accordance with the MFMA.

The challenge has been on recruiting, appointing and retaining competent personnel (especially with relevant accounting skills and municipal experience).

#### **2.15.4. Audit Committee**

An Audit Committee has been established, which is a shared service with the district municipality. The committee is fully functional and has been having their meetings as required by law and submitting reports to Council, the committee held four meetings in the financial period 2011/12 as of April 2012 and the next meeting is expected before financial year end.

#### **2.15.5. Service Delivery and Implementation Plan**

The detailed SDBIP document is at a draft stage and will be finalised after approval of the 2012-13 MTREF in May 2012. Much still needs to be done from now till then to ensure direct aligned between the IDP, MTREF and SDBIP.

#### **2.15.6. Annual Report**

Annual report is compiled in terms of the MFMA and National Treasury requirements. The report has been tabled to Council in line with the requirements of the MFMA. The report was tabled to Council on 25 January 2012 and approved on 30 March 2012.

#### **2.15.7. MFMA Training and Competency Regulations**

Only the CFO has completed the MFMA Learning modules in electronic format and the other officials within the BTO (including the Interns) are yet to complete the training.

There are four Senior Managers including the CFO and Municipal Manager which are affected by the MFMA Competency regulations. Only the CFO has partially completed the training, awaiting results on certain unit standards. The Municipal Manager is almost at the completion of the program as well. The CFO has enrolled with the University of Pretoria while the Municipal Manager has enrolled with Wits Business School.



The Manager Corporate Services and Technical Manager have subsequently registered for the training and will be attending their first contact session during the last week of May 2012. However, they might not complete the training on time before the regulations are applicable (i.e. January 2013).

#### **2.15.8. Policies and bylaws**

The municipality has compiled the various policies as required by various legislations as well as the Municipal Budget and Reporting regulations. The challenge has been on implementation and adherence to such policies subsequent to their approval by Council. Bylaws are yet to be promulgated, currently at draft / compilation stage.

#### **2.16. Other supporting documents**

The documents mentioned below are attached as annexures to the annual budget:

- (a) Tariff list
- (b) The integrated development plan
- (c) Budget related policies
- (d) Supporting tables

#### **2.17. Municipal Manager's quality certificate**

The Municipal Manager's quality certificate as required by the Municipal Budget and Reporting Regulations is attached in the next page.



## LETSEMENG LOCAL MUNICIPALITY

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OFFICE OF THE MUNICIPAL MANAGER

### RE: Quality Certificate for the 2012-13 Medium Term Revenue & Expenditure Framework

I, **Itumeleng Edward Poole**, the Municipal Manager of Letsemeng Local Municipality, hereby certify that the annual budget for the 2012-13 financial year has been prepared in accordance with the Municipal Finance Management Act and the regulations made under the Act, and that the annual budget and supporting documents are consistent with the Integrated Development Plan of the municipality.

Name: ITUMELENG EDWARD POOLE

Municipality: LETSEMENG LOCAL MUNICIPALITY

Signature: 

Date: 29 - 05 - 2012

## TARIFF LIST

LETSEMENG LOCAL MUNICIPALITY					
TARIFFS 2012/2013					
	Description	2011/2012		% Inc	2012/2013
		R			R
<b>1.0</b>	<b>Property Tax</b>				
	<b>Category</b>	<b>2011/2012</b>	<b>Rebate</b>		<b>2012/2013</b>
	Residential	0.009681	2%	12.5%	0.108910
	Business, Industrial	0.010080	0%	12.5%	0.015309
	Government	0.010500	0%	12.5%	0.011813
	Vacant Stands	0.010080	0%	12.5%	0.015309
	Churches	0.010080	100%	0%	0.000000
	NGO, Creche, PBO structured and registered	0.010080	100%	0%	0.000000
	Municipality	0.000000	100%	0%	0.000000
	Small Holdings	0.005040	0%	12.5%	0.005746
	Farms	0.001162	75%	0.0%	0.001280
	Phase in rebate : (2009/10 = 75%) (2010/11 = 50%) (2011/12 = 52%) ( <b>2012/13 = 53%</b> )				
	PSI	0.010080	100%	0%	0.000000
	State owned	0.010500	0%	12.5%	0.011813
	The above tariffs must be read in conjunction with the municipality's comprehensive Property Tax Policy				
	Property Tax is calculated on the total improvement value (Land & Improvements)				
	The first R 15 000 of the total improvement value of residential properties is exempted from property tax.				
	The first R 45 000 of the total improvement , value of residential property of indigent owners is exempted from property tax.				
	Property tax is payable monthly and if not paid interest at a rate as determined from time to time will be levied on all arrear amounts.				
<b>2.0</b>	<b>Administration</b>				
<b>2.1</b>	<b>Photocopies</b>				
	Photocopies: Including Rent, Paper & Labour	1.31		10%	1.44

<b>2.2</b>	<b>Tax Certificates</b>				
	Per Certificate	56.52		10%	62.17
<b>2.3</b>	<b>Valuation Certificate</b>				
	Per Certificate	32.30		10%	35.53
<b>2.4</b>	<b>Building Plan Fees</b>				
	Per Application	85.58		10%	94.14
<b>2.5</b>	<b>Posters in municipal open spaces or against posts</b>				
	Deposit: per poster for consumers or political parties	8.46		10%	9.31
	If the personnel of the municipality must remove the posters after 7 days has lapsed since the gathering or meeting had taken place, the above deposit is forfeited.				
<b>2.6</b>	<b>Facsimiles</b>				
	Receiving of facsimiles	3.39		10%	3.73
	Sending of facsimiles	4.24		10%	4.66
<b>2.7</b>	<b>Voters Lists</b>				
	Per list or part thereof	42.36		10%	46.60
<b>2.8</b>	<b>Budget</b>				
	Per budget or part thereof	42.36		10%	46.60
<b>3.0</b>	<b>Cemeteries, Parks &amp; Sport Grounds</b>				
<b>3.1</b>	<b>Cemetery Fees</b>				
	Site Fee (Digging of grave included)	386.61		10%	425.27
	Site Fee (Digging of grave excluded)	44.98		10%	49.48
	The above exclude funerals over week ends				
	<b>Pauper burials</b>				
	Must qualify as an indigent according to the indigent policy				
	Must be an approved indigent				
	Must already receive a financial subsidy				
	Must be an permanent resident at the address as approved for indigent subsidy				
	The deceased must be on the application form of the approved application form for indigent subsidy				
	Pauper funerals will be subsidised as follows:				
	Adults	1 088.10		10%	1 196.91
	Children	725.40		10%	797.94
	No funerals will be allowed to take place over week ends except where the applicants will cover the grave themselves. If not then over time rates will be charged, over and above the normal tariffs				
	If a funeral is to take place on a Monday then arrangements must be made with the office before 10:00 on the previous Friday				

<b>3.2</b>	<b>Sport Grounds</b>				
	That all sport clubs received the following subsidies on the condition that the Municipal Manager can discuss any problems that he/she experiences regarding the usage of the subsidy by a sport club directly with the relevant sport club on behalf of the Council				
	The usage of water, sewerage and refuse removal on condition that they maintain the club and grounds				
	R 525.00 per month which amount includes the maintenance of the facilities and free municipal services				
	<b>Yachting Club</b>				
	Free municipal services				
	<b>Tennis Club</b>				
	Free municipal services				
	<b>Badminton Club</b>				
	A subsidy of R 315.00 per annum for the renting of the hall				
	<b>K.O.F.S</b>				
	A subsidy of R 840.00 per month for the maintenance of the facilities				
	<b>Sport Committees</b>				
	A subsidy of R 1 500.00 per month for the maintenance of sport facilities as per contract				
	<b>Caravan Park Fees</b>				
<b>3.3</b>	Camping Fees per day	121.00		10%	133.00
<b>4.0</b>	<b>Properties</b>				
	Pound Master: Works Foreman in each Town				
	<b>Tariffs within the municipal area</b>				
<b>4.1</b>	<b>Driving of livestock within the municipal area</b>				
4.1.1	In the case of livestock (excluding tame ostriches) whether one or more to be driven to the pound: per kilometer	3.39		10%	3.73
	with the understanding that if,				
4.1.1.1	A herd consists of more than 50 small livestock or 20 large livestock: per kilometer	3.39		10%	3.73
4.1.1.2	Small livestock, donkeys, horses and mules: the total amount payable will not exceeds the amount calculated per kilometer	3.39		10%	3.73
4.1.1.3	Tamed ostriches: Per ostrich per kilometer	3.39		10%	3.73
4.1.1.4	Pigs: per pig per kilometer	3.39		10%	3.73

<b>4.2</b>	<b>Pound Fees</b>				
4.2.1	Pound fees per animal that is impounded within the municipal area per day.				
	Large Livestock	84.81		10%	93.29
	Small Livestock	50.91		10%	56.00
	Horses, Mules and Donkeys	84.81		10%	93.29
	Pigs	50.91		10%	56.00
<b>4.3</b>	<b>Trespassing Fees</b>				
	Large Livestock (each)	6.77		10%	7.45
	Small Livestock (each)	3.39		10%	3.73
<b>4.4</b>	<b>Grazing Fees / Caring Fees</b>				
	Large Livestock (each per month)	20.37		10%	22.41
	Small Livestock (each per month)	5.07		10%	5.58
<b>4.5</b>	<b>Definitions</b>				
	Large livestock is horses, donkeys, mules, cattle, pigs and ostriches				
	Small livestock is sheep and goats				
<b>4.6</b>	<b>Advertisements: Pounds</b>				
	Advertising cost is cost occurred for the advertisement of the selling of stock impounded and which is collected before it is sold.				
	The advertisement period for the selling of stock is 21 days for all stock except donkeys, pigs and mules which is as soon as possible				
<b>4.7</b>	<b>Commonage fees per Ha, per year</b>	13.53		10%	14.88
<b>5.0</b>	<b>Licenses</b>				
<b>5.1</b>	<b>Dog Licenses</b>				
<b>5.1.1</b>	<b>Wolfhonde &amp; Windhonde</b>				
5.1.1.1	For the first dog (Sterilised or not)	25.44		10%	27.98
5.1.1.2	For each additional dog	33.90		10%	37.29
<b>5.1.2</b>	<b>Other dogs</b>				
5.1.2.1	Sterilised	16.92		10%	18.61
	Not Sterilised (Male)	24.22		10%	26.64
5.1.2.2	Not Sterilised (Bitch)	25.44		10%	27.98
5.1.2.3	For each additional dog	33.90		10%	37.29
<b>5.1.3</b>	<b>Fines</b>				
	On each full month since license fee became due: 2.5%				

<b>5.2</b>	<b>Business Licenses</b>				
	Application Fee	42.45		10%	46.70
	Businesses: Food	127.18		10%	139.90
	Hawkers per day at the approved sites (Works Foreman will collect the fees)	17.41		10%	19.15
	Hawkers from other municipal areas per day	76.90		10%	84.59
	Flats for the aged	150.00		10.00%	165.00
<b>6.0</b>	<b>Public Works</b>				
	<b>Sundry Tariffs</b>				
<b>6.1</b>	<b>Services Rendered</b>				
6.1.1	Post level 5: Artisan - calculated from the time he/she left his/her works place until such time he/she returns the his/her works place. <b>(per hour)</b>	160.24		10%	176.26
	An additional allowance per day is payable if he/she must work outside the municipal area	33.90		10%	37.29
6.1.2	Post Level 11 16: Laborers - per day per employee	233.75		10%	257.13
	An additional allowance per day is payable if he/she must work outside the municipal area	13.53		10%	14.88
6.1.3	Compressor: Per actual hours worked as per hour meter (including labour & petrol)	143.78		10%	158.16
6.1.4	Vacuum Tank and Tractor				
	Per hour and	89.80		10%	98.78
	Per kilometer	3.62		10%	3.98
	Labour supplied by municipality and is				
	Vacuum Tanker				
	Per hour and	89.80		10%	98.78
	Per kilometer	35.52		10%	39.07
6.1.5	Light Vehicles: per kilometer	2.68		10%	2.95
6.1.6	Graders				
	Per actual hour worked (diesel included)	323.57		10%	355.93
	Petra Diamonds Mine: Petrol and labour				
6.1.7	Excavator				
	Per actual hour worked (diesel included)	288.07		10%	316.88
6.1.8	After Hour Calls: per call if less then 30	44.94		10%	49.43
6.1.9	Bulldozer				
	Per actual hour worked (diesel included)	449.36		10%	494.30
6.1.10	Tipper Trucks				
	Per hour and	98.78		10%	108.66
	Per kilometer	8.99		10%	9.89
6.1.11	Flat Base Trucks per kilometer	11.69		10%	12.86
6.1.12	Tractors per hour	53.91		10%	59.30
	Deposit on tractor	403.68		10%	444.05
6.1.13	Traveling cost of equipment to be paid by				
6.1.14	TLB (Back Hoe)				
	Per actual hour worked (diesel included)	288.07		10%	316.88
6.1.15	Small trailer per day	121.00		10%	133.10
6.1.16	Rental of Bo-Mac per day or part thereof	484.00		10%	532.40
6.2	Road closures per day or part thereof	36.30		10%	39.93

<b>7.0</b>	<b>Refuse Removal</b>				
<b>7.1</b>	<b>Refuse Removal Fees</b>				
	<b>Per Month</b>				
	Households	63.16		11.11%	70.18
	Flats/Town Houses	63.16		11.11%	70.18
	Businesses / Offices	124.03		10.00%	136.43
	Abattoir	523.52		10%	575.87
	Wine Cellar	186.98		10%	205.68
	Schools and Boarding Schools	127.14		10%	139.85
	Spoornet	168.28		10%	185.11
	Crèches	63.16		11.11%	70.18
	Churches	37.39		10%	41.13
	Households - Combined with Business	84.70		10%	84.70
	Other	112.18		10%	123.40
	Empty Erven - Availability	37.39		10%	41.13
	Refuse bags	2.88		10%	3.17
7.1.1	An approved refuse drum is one which has two handles and the drums must be supplied by the consumer at own cost.				
7.1.2	If one drum is not sufficient the consumer must supply more drums.				
7.1.3	The Health Inspector of the municipality will determine whether a drum is according to the specifications				
7.1.4	The consumer has the choice to remove his/her garden refuse to an approved dumping site or he/she can place it with their normal refuse on a weekly basis. No additional fees are payable.				
7.1.5	Bulk refuse and/or building rubble will be removed per load. (Load - 4m3)	134.40		10%	147.84
7.1.6	Refuse Removals will be done as per newsletter				
<b>7.2</b>	<b>Cleaning of empty sites</b>				
	Sites smaller than 600m2	420.01		10%	462.01
	Sites larger than 600m2 but smaller than 1 500m2	655.20		10%	720.72



<b>7.3</b>	<b>Sewerage Tariffs</b>				
	<b>Per Month</b>				
	Households	63.16		11.11%	70.18
	Flats/Town Houses	63.16		11.11%	70.18
	Businesses / Offices	112.18		10%	123.40
	Abattoir	4 524.77		10%	4 977.25
	Wine Cellar	925.13		10%	1 017.64
	Schools and Boarding Schools	441.32		10%	485.45
	Petra Diamonds Security Area	4 487.38		10%	4 936.12
	Spoornet	168.28		10%	185.11
	Department of Justice	841.39		10%	925.53
	Crèches	63.85		8.65%	69.37
	Churches	37.39		10%	41.13
	Households - Combined with Business	72.60		10%	72.60
	Sucking Points - each	112.18		10%	123.40
	Old Age Flats	58.38		8.65%	63.43
	Garages	140.24		10%	154.26
	Others	112.18		10%	123.40
	Empty Erven - Availability	37.39		10%	41.13
	Buckets	-		10%	-
	<b>Note: Sewer blockages at abattoirs-each</b>	839.96		10%	923.96
	<b>Residential sewer blockages</b>				
	Per household sharing manhole	48.40	-	10%	48.40
	Per household not sharing manhole	193.60	-	10%	193.60
	Rental of suction pump per hour (including petrol)	121.00		10%	133.10
	Sewerage connection	726.00		10%	798.60

<b>7.5</b>	<b>Town Halls and Offices</b>				
	Town Halls: Jacobsdal, Koffiefontein, Luckhoff & Petrusburg - rent and deposits				
7.5.1	Weddings, Receptions and Banquets (excluding dancing)				
	Residents	217.62		10%	239.38
	Non- Residents	362.70		10%	398.97
7.5.2	As above and include dancing				
	Residents: rent	290.16		10%	319.18
	Residents: deposit	725.40		10%	797.94
	Non- Residents: rent	580.32		10%	638.35
	Non- Residents: deposit	1 015.55		10%	1 117.11
7.5.3	Dances	-			-
	Residents: rent	362.70		10%	398.97
	Residents: deposit	725.40		10%	797.94
	Non- Residents: rent	725.40		10%	797.94
	Non- Residents: deposit	1 015.55		10%	1 117.11
7.5.4	Bioscope: Rent-Residents	108.81		10%	119.69
	Non Residents	217.62		10%	239.38
7.5.5	Charity: Rent	-			-
7.5.6	Churches	-			-
	Residents: rent	87.04		10%	95.74
	Non- Residents: rent	217.62		10%	239.38
	Deposit	290.16		10%	319.18
<b>7.6</b>	<b>Concerts and Theater</b>				
7.6.1	Local Amateurs				
	Residents: rent	101.55		10%	111.71
	Residents: deposit	725.40		10%	797.94
	Non- Residents: rent	217.62		10%	239.38
	Non- Residents: deposit	1 015.55		10%	1 117.11
7.6.2	School Concert				
	Residents: rent	50.79		10%	55.87
	Non- Residents: rent	290.16		10%	319.18
	Deposit	725.40		10%	797.94
7.6.3	Traveling Theater				
	Non- Residents: rent	290.16		10%	319.18
	Non- Residents: deposit	1 015.55		10%	1 117.11

<b>7.7</b>	<b>Meetings, Exhibitions and Tables</b>				
7.7.1	Political Meetings				
	Residents: rent	43.53		10%	47.88
	Non- Residents: rent	43.53		10%	47.88
7.7.2	Political Committee Meetings				
	Residents: rent	43.53		10%	47.88
	Non- Residents: rent	43.53		10%	47.88
7.7.3	Meetings/Gatherings				
	Residents: rent	87.04		10%	95.74
	Non- Residents: rent	217.62		10%	239.38
7.7.4	Educational. Schools, VLU and OVV				
	Residents: rent	-			-
	Non- Residents: rent	72.55		10%	79.81
7.7.5	Exhibitions between 20:00 and 09:00				
	Residents: rent	290.16		10%	319.18
	Non- Residents: rent	870.47		10%	957.52
7.7.6	Tables and chairs are free of charge on condition that it can only be used within municipal properties	-			-
7.7.7	Application for parties, church services and other function not mentioned above will be submitted to an ad-hoc committee existing out of the Mayor or Chairperson of the Finance Committee, a Councilor and the Municipal Manager for consideration and if approved the applicable fee				
<b>8</b>	<b>Library Halls</b>				
8.1	Deposit	145.08		10%	159.59
<b>8.2</b>	<b>Rent per occasion</b>				
8.2.1	Farewell parties, Song Competitions & Film Shows	72.55		10%	79.81
8.2.2	Theater Dance	72.55		10%	79.81
8.2.3	Meetings	72.55		10%	79.81
8.2.4	Charity	-			-
8.2.5	School Functions (With supervision from school)	-			-
8.2.6	Any other purpose	101.55		10%	111.71

<b>9.1</b>	<b>Electricity Service</b>				<b>PROPOSED</b>	<b>NERSA</b>
	<b>Tariff 1</b>					<b>APPROVED</b>
<b>9.1.1</b>	<b>Households, Flats and Houses (Conventional Meters)</b>					
9.1.1.1	A fixed service levy per consumption month or part thereof plus	123.66		11.03%	137.30	<b>137.30</b>
9.1.1.2	Consumption per kW.h 0 - 50 kWh				0.63	<b>0.63</b>
	51 - 350 kWh				0.79	<b>0.79</b>
	351 - 600 kWh				1.04	<b>1.04</b>
	> 600 kWh				1.25	<b>1.25</b>
9.1.2	Temporary User Tariff per kW.h	1.79		11.03%	1.99	
	Minimum Fee	5.77		11.03%	6.41	
9.1.3	Pre-paid User Tariff: Residential per kW.h				-	
	Consumption per kW.h 0 - 50 kWh				0.65	<b>0.65</b>
	51 - 350 kWh				0.80	<b>0.80</b>
	351 - 600 kWh				1.05	<b>1.05</b>
	> 600 kWh				1.25	<b>1.25</b>
	<b>Tariff 2</b>					
<b>9.2</b>	<b>Spoornet</b>					
9.2.1	A fixed service levy per consumption month or part thereof plus	248.15		11.03%	275.52	<b>275.52</b>
9.2.2	Consumption per kW.h	1.19		11.03%	1.32	<b>1.23</b>
	<b>Tariff 3</b>					
	<b>All other users not mentioned above, businesses and offices (conventional meters)</b>					
9.3.1						
9.3.1.1	A fixed service levy per consumption month or part thereof plus	248.15		11.03%	275.52	<b>275.52</b>
9.3.1.2	Consumption per kW.h	1.19		11.03%	1.32	<b>1.23</b>
9.3.1.3	Pre-paid User Tariff: per kW.h	1.20		11.03%	1.33	<b>1.33</b>

	<b>Tariff 4</b>					
<b>9.4</b>	<b>Bulk Users</b>					
	This tariff is applicable on all users whose maximum demand is over 35 KVA in any 30 minute period in a consumption month.					
9.4.1	A minimum of 35 KVA @ R57.25/KVA = R3 003.75 per month or part thereof plus,					
	Per KVA	130.03		11.03%	144.37	<b>144.37</b>
	Minmium	4,309.21		11.03%	4,784.52	<b>4,784.52</b>
9.4.2	Per KVA above 35 KVA, plus	130.03		11.03%	144.37	<b>144.37</b>
9.4.3	kW.h consumption per consumption month or part thereof	0.44		11.03%	0.49	<b>0.51</b>
	<b>Tariff 5</b>					
<b>9.5</b>	<b>Bulk Users – that use less than 10 000 kW.h per month,</b>					
	This tariff is applicable on all consumers whose maximum demand is over 50KVA for any period of 30 minutes in a consumption month.					
9.5.1	A fixed service levy per month; plus	2,928.07		11.03%	3,251.04	<b>3251.04</b>
9.5.2	kW.h consumption per consumption month or part thereof	0.91		48.00%	1.35	<b>1.03</b>

	<b><u>Tariff 6</u></b>					
	<b>Provision to areas outside the municipal area</b>					
	The provision of electricity to user's whose premises are not within the municipal area, will be handled under the same conditions and tariffs as those of the same category user within the municipal area on the condition that a levy of maximum 25% be added to the monthly account.					
	<b><u>Tariff 7</u></b>					
	<b>Municipal Consumption</b>					
	Consumption per kW.h	0.98		18.00%	1.16	
	<b><u>Tariff 8</u></b>					
	<b>Increases by ESKOM</b>					
	If ESKOM increases the purchase price of electricity, the municipality can increase its tariffs after a council resolution has been obtained by the same percentage increase as that of ESKOM and shall not be more than 30% at any given time. The increase can also not be earlier than the implementation date of ESKOM.					
	<b><u>Tariff 9</u></b>					
	<b>Empty erven and erven where the electricity supply where taken out.</b>					
		37.54		10%	41.29	
	An amount of R41.29 per month is payable for each erf (except if the erf is part of land belonging to the Government) which is not connected to the electricity network of the municipality and is adjacent to a street or part of a street in which the electricity supply is available. This tariff is also applicable where the owner has requested that the electricity supply must be removed					

	<b>Tariff 9</b>				
	<b>Empty erven and erven where the electricity supply where taken out.</b>				
		37.54		10%	41.29
	An amount of R41.29 per month is payable for each erf (except if the erf is part of land belonging to the Government) which is not connected to the electricity network of the municipality and is adjacent to a street or part of a street in which the electricity supply is available. This tariff is also applicable where the owner has requested that the electricity supply must be removed				
	<b>Tariff 10</b>				
<b>10.1</b>	<b>Electricity Connections</b>				
10.1.1	Residential Connections per connection	3 024.40		10%	3 326.84
10.1.2	Other connections per connection	5 040.65		10%	5 544.72
10.1.3	The installation of a 3 phase meter (pre-paid or conventional). Additional cost per connection	4 032.52		10%	4 435.77
10.1.4	The change to or installation of a single phase pre-paid meter per connection (additional cost)	907.32		10%	998.05
10.1.5	The connection fees of indigents and poor households are subsidised out of the Equitable Share at 100% and 50% respectively				
<b>10.2</b>	<b>Deposits</b>				
	Deposits for all residential and other users are payable according to the Council's Credit Control Policy				
	Increases of deposits will be done within the electricity provision regulations and the credit control policy				
	Indigents will not pay any deposits				
	Poor households will only pay 50% of the relevant deposit				

<b>10.3</b>	<b>Reconnections and special meter</b>				
	Per application and in cases of late payments	60.49		10%	66.54
<b>10.4</b>	<b>Installation Tests</b>				
	First Test	50.44		10%	55.48
	Per test thereafter	60.49		10%	66.54
<b>10.5</b>	<b>Telephonic Reminders per call</b>	10.11		10%	11.12
<b>10.6</b>	<b>Call outs:</b>				
	The costs will be added to the monthly consumer account if it can not be paid during the call out				
10.6.1	During Working Hours:				
	Per Call	50.44		10%	55.48
	Labour per hour	110.91		10%	122.00
	Material for the cost of the consumer				
10.6.2	After Hours:				
	Per Call	76.09		10%	83.70
	Labour per hour	193.15		10%	212.47
	Material for the cost of the consumer				
10.6.3	Sundays and Public Holidays				
	Per Call	93.64		10%	103.00
	Labour per hour	257.52		10%	283.27
	Material for the cost of the consumer				
10.6.4	Call outs after hours are only applicable if there is no electricity				
10.6.5	Petra Diamonds Mine personnel or owners of houses	-			-
	Only requests from home owners will receive attention but personnel from Petra Diamonds Mine can through the mines security office request help in the case of an emergency				



<b>11.0</b>	<b>Water Tariffs</b>				
<b>11.1</b>	<b>Residential</b>				
	0 - 6KL	-		10%	-
	7-30 KL	5.00		8%	5.40
	31-50 KL	7.29		5%	7.65
	>50 KL	8.41		0%	8.41
	Fixed Levy	37.74		10%	41.51
<b>11.2</b>	Flats for the Old Age				
	Fixed Levy: per month	37.74		10%	41.51
<b>11.3</b>	Industries (In Industrial Area)				
	Fixed Levy	471.89		10%	519.08
	Per Kiloliter	5.51		15%	6.34
<b>11.4</b>	Users not Mentioned				
	Fixed Levy: per month	113.26		10%	124.59
	Per Kiloliter	5.60		15%	6.44
<b>11.7</b>	Petra Diamonds Mine: Purified Water				
	Fixed Levy: per month	471.89		10%	519.08
	Per Kiloliter	5.51		15%	6.34
<b>11.8</b>	Schools, Chreches and Boarding Schools				
	Fixed Levy: per month	107.03		10%	117.73
	Per Kiloliter	5.51		15%	6.34
<b>11.9</b>	Municipal Usages				
	Per Kiloliter	5.09		10%	5.60
<b>11.10</b>	Empty Erven (excluding Government Land)				
	Fixed Levy: per month	33.91		10%	37.30
<b>11.11</b>	Chanal Water ( Jacobsdal)				
	Levy per hour	182.99		10%	201.29
<b>11.5</b>	Pre-paid System				
	Non-residential	4.66		10%	5.13
<b>11.6</b>	Pre-paid System				
	Residential (0-6KI Free)	7.63		10%	8.39
<b>11.7</b>	Water connection	726.00		10%	798.60
	<b>All the above tariffs excludes VAT</b>				

## **Budget related policies**

# Letsemeng Local Municipality



## Budget Policy

## **1. OBJECTIVE**

- 1.1 To set out the budgeting principles which the municipality will follow in preparing each annual budget, as well as to secure sound and sustainable management of budgeting and reporting practices by ensuring compliance with norms and standards and other requirements as established by the National Treasury.

## **2. BUDGET STEERING COMMITTEE**

- 2.1 The Mayor shall establish a budget steering committee to provide technical assistance to the mayor in discharging his responsibilities as set out in section 53 of Municipal Finance Management Act. The budget steering committee shall consist of the following persons:

- a) the Councillor responsible for financial matters;
- b) the Accounting Officer (Municipal Manager);
- c) the Chief Financial Officer;
- d) the Manager / Officer responsible for budgeting;
- e) the Integrated Development Plan Manager;
- f) any technical expert on infrastructure; and
- g) heads of the Departments of the municipality / Senior Managers.

- 2.2 The Chief Financial Officer and senior managers shall undertake the technical preparation of the budget.

## **3. BUDGETING PRINCIPLES TO BE FOLLOWED**

- 3.1. Except in so far as capital projects represent a contractual commitment to the municipality extending over more than one financial year, the annual capital budget shall be prepared from a zero base.
- 3.2 The capital budget component of the annual or adjustments budget shall only be approved by the council if it has been properly balanced, that is, if

the sources of finance which are realistically envisaged to fund the budget equal the proposed capital expenses.

- 3.3. Before approving the capital budget component of the annual or adjustments budget, the council shall consider the impact on the present and future operating budgets of the municipality in relation to finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets, and any other ordinary operational expenses associated with any item on such capital budget.
- 3.4. Each annual and adjustments budget shall reflect realistic excess, however nominal, of current revenues over expenses.
- 3.5. Any unappropriated surplus from previous financial years can be used to balance any annual or adjustments budget.
- 3.6. An impending operating deficit shall be made good in an adjustments budget, but if an operating deficit arises at the end of a financial year, notwithstanding the precautionary measures adopted by the council, such deficit shall immediately be made good in the annual or adjustments budget for the ensuing financial year, and shall not be offset against any unappropriated surplus carried forward from preceding financial years.
- 3.7. All expenses, including depreciation expenses, shall be cash-funded. The cash received in respect of depreciation expenses on fixed assets financed from external borrowings shall be transferred to the investments created to redeem such borrowings.
- 3.8. Total finance charges payable by the municipality shall be charged to Budget and Treasury Office department. On the basis of the proportion at the last balance sheet date of the carrying value of the fixed assets belonging to such department or vote to the aggregate carrying value of all fixed assets to the municipality. However, where it is the council's policy to raise external loans only for the financing of fixed assets in specified council services, finance charges shall be charged to or apportioned only between the departments or votes relating to such services.
- 3.9. Depreciation and finance charges together shall not exceed 20% of the aggregate expenses budgeted for in the operating budget component of each annual or adjustments budget.
- 3.10. The allocation of interest earned on the municipality's investments shall be budgeted for in terms of the banking and investment policy.

- 3.11 The municipality shall adequately provide in each annual and adjustments budget for the maintenance of its fixed assets in accordance with its fixed asset management and accounting policy. At least 5% of the operating budget component of each annual and adjustments budget shall be set aside for such maintenance.
- 3.12 In the preparation of the draft operating budget component of the annual budget, the allowable budgetary increment shall relate to the total amount provided for each budget vote, and the head of the department, service or function concerned shall have the right to allocate the total budgeted amount to the line-items within such vote, except in so far as the line-item provisions relate to matters determined by the chief financial officer in terms of the municipality's approved policies and contractual and statutory commitments (for example, depreciation charges, finance charges, insurance costs, contribution to the COID, skills development levies payable).
- 3.13 Notwithstanding the preceding principle, the budget for salaries, allowances and salaries-related benefits shall be separately prepared, and shall not exceed 40% of the aggregate operating budget component of the annual or adjustments budget. For purposes of applying this principle, the remuneration of political office bearers and other councillors shall be excluded from this limit.
- 3.14 The head of the department, service or function to which each budget vote relates shall justify the allocation of the aggregate budget for such vote to the various line-items within the vote to the portfolio committee responsible for the department, service or function concerned. In motivating the allocations made to and within the vote, the head of department, service or function concerned shall provide the relevant portfolio committee with appropriate quarterly performance indicators and service delivery targets pertaining to the budget. Such indicators and targets shall be prepared with the approval of the municipal manager and the mayor.

#### **4. RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER**

- 4.1 Without derogating in any way from the legal responsibilities of the municipal manager as accounting officer, the chief financial officer shall be responsible for preparing the draft annual capital and operating budgets (including the budget components required for the ensuing financial years), any required adjustments budgets, the projections of revenues and expenses for the service delivery and budget implementation plan (including the alignment of such projections with the cash management programme prepared in terms of the banking and investments policy), and shall be

accountable to the municipal manager in regard to the performance of these functions.

- 4.2 The municipal manager shall ensure that all heads of departments provide the inputs required by the chief financial officer into these budget processes.
- 4.3 The chief financial officer shall draft the budget timetable for the ensuing financial year for the mayor's approval, and shall indicate in such timetable the target dates for the draft revision of the annual budget and the preparation of the annual budget for the ensuing financial year, which target dates shall follow the prescriptions of the Municipal Finance Management Act, and target dates for the submission of all the budget related documentation to the mayor, budget steering committee, and council.
- 4.4 Except where the chief financial officer, with the consent of the mayor and municipal manager, decides otherwise, the sequence in which each annual budget and adjustments budget shall be prepared, shall be: first, the capital component, and second, the operating component. The operating component shall duly reflect the impact of the capital component on:
  - a) depreciation charges
  - b) repairs and maintenance expenses
  - c) interest payable on external borrowings
  - d) other operating expenses
- 4.5 In preparing the operating budget, the chief financial officer shall determine the number and type of votes to be used and the line-items to be shown under each vote, provided that in so doing the chief financial officer shall properly and adequately reflect the organisational structure of the municipality, and further in so doing shall comply – in so far as the organisational structure permits – also with the prescribed budget format of National Treasury.
- 4.6 The chief financial officer shall determine the depreciation expenses to be charged to each vote, the apportionment of interest payable to the appropriate votes, and the contributions to the provisions for bad debts, and accrued leave entitlements.
- 4.7 The chief financial officer shall also, again with the approval of the mayor and the municipal manager, and having regard to the municipality's current

financial performance, and recommendations issued by the National Treasury, determine the recommended aggregate growth factor(s) according to which the budgets for the various votes shall be drafted.

- 4.8 The chief financial officer shall compile monthly budget reports, with recommendations, comparing actual results with budgeted projections, and the heads of departments shall timeously and adequately furnish the chief financial officer with all explanations required for deviations from the budget. The chief financial officer shall submit these monthly reports to the mayor and finance committee, and all other prescribed parties, in accordance with the prescriptions of the Municipal Finance Management Act.
- 4.9 The chief financial officer shall provide technical and administrative support to the mayor in the preparation and approval of the annual and adjustment budgets, as well as in the consultative processes, which must precede the approval of such budgets.
- 4.10 The chief financial officer shall ensure that the annual and adjustments budgets comply with the requirements of the National Treasury reflect the budget priorities determined by the mayor, are aligned with the IDP, and comply with all budget-related policies, and shall make recommendations to the mayor on the revision of the IDP and the budget-related policies where these are indicated.
- 4.11 The chief financial officer shall make recommendations on the financing of the draft capital budget for the ensuing and future financial years, indicating the impact of viable alternative financing scenarios on future expenses, and specifically commenting on the relative financial merits of internal and external financing options.
- 4.12 The chief financial officer shall determine the basis for allocating overhead expenses not directly chargeable to votes. The expenses associated with the democratic process shall be allocated to a separate vote, and shall not be charged out as an overhead.
- 4.13 The chief financial officer shall ensure that the allocations from other organs of state are properly reflected in the annual and adjustments budget, and that the estimated expenses against such allocations (other than the equitable share) are appropriately recorded.

## **5. APPROVAL OF CAPITAL PROJECTS**

- 5.1 Before approving a capital project, the Council shall consider the following:



- a) the projected cost of the project over all the ensuing financial years until the project becomes operational,
- b) future operational costs and any revenues, which may arise in respect of such project, including the likely future impact on operating budget (i.e. on property rates and service tariffs).

5.2 The following capital projects may be approved by council either individually or as part of consolidated capital projects:

- a) Capital projects of which the total projected cost is below 5% of municipality's budgeted revenue, in the case of the municipality's approved total revenue in terms of the annual budget does not exceed R 250 million.
- b) Capital projects of which the total projected cost is below 8% of municipality's budgeted revenue, in the case of the municipality's approved total revenue in terms of the annual budget is greater than R 250 million but not exceeding R 500 million.
- c) Capital projects of which the total projected cost is below R50 million, in the case of the municipality's approved total revenue in terms of the annual budget is greater than R500 million.

5.3 Expenditure needed for capital projects below the values set out above, shall be included in the annual budget before the project is approved in terms of section 19(3) of MFMA.

5.4 For the capital projects approved as set out above, the Accounting Officer must, within ten days after the council has given individual approval for a capital project, and in terms of section 21A of Municipal Systems Act, make public the council's resolution approving the capital project and the nature, location and the total projected cost.

## **6. QUALITY CERTIFICATION**

6.1 Whenever an annual budget and supporting documentation, adjustment budget and supporting documentation or an in-year report is submitted to the mayor, tabled in council, made public or submitted to another organ of state, it must be accompanied by a QUALITY CERTIFICATE complying with Schedule A, B or C of Municipal Budget and Reporting Regulations, 2008 and signed by the Accounting Officer.

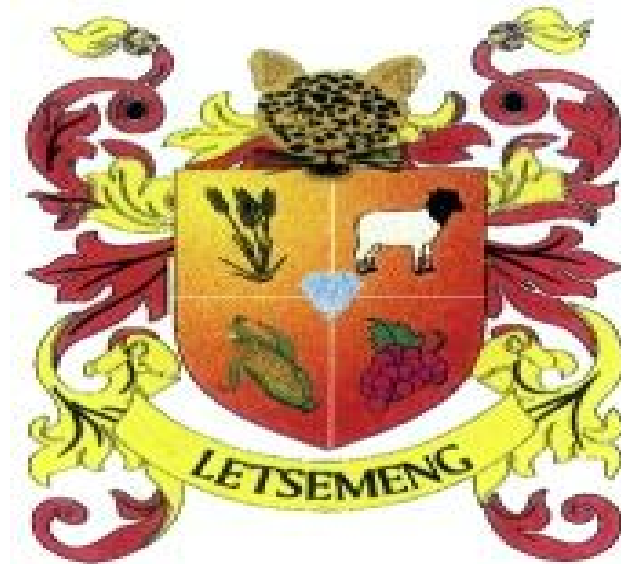
- 6.2 The Accounting Officer shall take all reasonable steps to ensure that the basis of measurement and accounting policies underpinning the municipality's annual financial statements are the same as those used in the preparation of the municipality's annual budget and supporting documentation, its adjustment budget and supporting documentation and the in-year reports, and any differences or changes between financial years are explicitly noted.
- 6.3 The Accounting Officer in signing the quality certificate, certifies that, where appropriate, all ratepayers and consumers are accounted for in the annual budget calculations and that revenue related records and information are up to date and consistent with revenue projections in the annual budget.

## **7. LEGAL REQUIREMENTS: MUNICIPAL FINANCE MANAGEMENT ACT OF 2003 (NO 56)**

- 7.1 All legal requirements pertaining to the annual budget and adjustment budget must be fully complied with when the annual budget is compiled, in particular the following sections of the Municipal Finance Management Act:
1. Section 15: Appropriation of funds for expenditure
  2. Section 16: Annual budgets
  3. Section 17: Contents of annual budgets and supporting documents
  4. Section 18: Funding of expenditure
  5. Section 19: Capital projects
  6. Section 20: Matters to be prescribed
  7. Section 21: Budget preparation process
  8. Section 22: Publication of annual budgets
  9. Section 23: Consultations on tabled budgets
  10. Section 24: Approval of annual budgets
  11. Section 25: Failure to approve budget before start of budget year
  12. Section 26: Consequences of failure to approve budget before start of budget year
  13. Section 27: Non-compliance with provisions of this chapter

- 14. Section 28: Municipal adjustments budgets
- 15. Section 29: Unforeseen and unavoidable expenditure
- 16. Section 30: Unspent funds
- 17. Section 31: Shifting of funds between multi-year appropriations
- 18. Section 32: Unauthorised, irregular or fruitless and wasteful expenditure
- 19. Section 33: Contracts having future budgetary implications
- 20. Section 53: Budget processes and related matters
- 21. Section 54: Budgetary control and early identification of financial problems
- 22. Section 55: Report to provincial executive if conditions for provincial intervention exist
- 23. Section 68: Budget preparation
- 24. Section 69: Budget implementation
- 25. Section 70: Impending shortfalls, overspending and overdrafts
- 26. Section 71: Monthly budget statements
- 27. Section 72: Mid-year budget and performance assessment
- 28. Section 73: Reports on failure to adopt or implement budget-related and other policies
- 29. Section 75: Information to be placed on websites of municipalities
- 30. Section 80: Establishment (of municipal budget and treasury office)
- 31. Section 81: Role of chief financial officer
- 32. Section 83: Competency levels of professional financial officials

# Letsemeng Local Municipality



## VIREMENT POLICY

## 1. Definitions

**“Accounting Officer”** The municipal manager is the accounting officer of the municipality in terms of section 60 of the MFMA.

**“Approved Budget”** means an annual budget approved by a municipal council for implementation within a specific financial year.

**“Budget-related policy”** means a policy of a municipality affecting or affected by the annual budget of the municipality.

**“Chief Financial Officer”** means a person designated in terms of the MFMA who performs such budgeting, and other duties as may in terms of section 79 of the MFMA be delegated by the accounting officer to the Chief Financial Officer.

**“Capital Budget”** This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

**“Council”** means the council of a municipality referred to in section 18 of the Municipal Structures Act and the Letsemeng Council shall have the same meaning.

**“Financial year”** means a 12-month year period starting from 01 July of each year ending on 30 June of the next year.

**“Line Item”** an appropriation that is itemised on a separate line in a budget adopted with the idea of greater control over expenditure.

**“Operating Budget”** The municipality’s financial plan, which outlines proposed expenditures for the coming financial year and estimates the revenues used to finance them.

**“Ring Fenced”** An exclusive combination of line items grouped for specific purposes for instance salaries and wages.

**“Service Delivery and Budget Implementation Plan”** means a detailed plan approved by the mayor of a municipality in terms of section 53(1) (c)

(ii) for implementing the municipality's delivery of municipal services and its annual budget.

**"Virement"** is the process of transferring an approved budget allocation from one operating line item to another, with the approval of the relevant Manager to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

**"Vote"** means one of the main segments into which a budget of a municipality is divided for the appropriation of funds for the different departments or functional areas of the municipality, and which specifies the total amount that is appropriating for the purposes of the department or functional area concerned.

## **2. INTRODUCTION**

- 2.1 Each year, the municipality produces an annual budget which must be approved by Council. In practice, as the year progresses, circumstances may change so that certain estimates are under-budgeted and others over-budgeted due to unforeseen expenditure (for example, due to the occurrence of disasters) or savings.
- 2.2 As a result, it becomes necessary to transfer funds between votes and line items. It is not practical to refer all transfers between line items within a specific vote to the Council, and as the Local Government: Municipal Finance Management Act ("MFMA") is largely silent as to such transfers, it is necessary to establish a policy which governs the administrative transfer between line items.

## **3. OBJECTIVE**

- 3.1 The purpose of this policy is therefore to provide a framework whereby transfers between line items within votes of the operating budget may be performed with the approval of Municipal Manager.
- 3.2 To allow limited flexibility in the use of budgeted funds to enable management to act on occasions such as disasters, unforeseen expenditure or savings, etc. as they arise to accelerate service delivery in a financially responsible manner.

## **4. APPLICATION OF POLICY**

- 4.1 This policy applies only to transfers between line items within votes of the Municipality's operating budget. Section 28(2) (d) of the MFMA provides that *"An adjustments budget...may authorise the utilisation of projected savings in one vote towards spending in another vote."*
- 4.2 Transfers between votes may therefore be authorised only by the Council of the Municipality.
- 4.3 This policy replaces any other policies or Council resolutions as far as they may refer to virements (transfer of funds) as defined in this policy.
- 4.4 Once approved, the virement policy should form part of the Municipal Manager's formal delegations and Financial Regulations of the Municipality.
- 4.5 Transfers or adjustments falling outside the ambit of this policy must be submitted to the budget adjustment process in terms of Section 19 of the MFMA.

## **5. VIREMENT CLARIFICATION**

- 5.1 Virement is the process of transferring budgeted funds from one line item number to another, with the approval of the relevant Manager; Chief Financial Officer and Municipal Manager, to enable budget managers to amend budgets in the light of experience or to reflect anticipated changes.

## **6. FINANCIAL RESPONSIBILITY**

- 6.1 Strict budgetary control must be maintained throughout the financial year in order that potential overspends and / or income under-recovery within individual vote departments is identified at the earliest possible opportunity.
- 6.2 The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control and therefore, the budget virement process is one of these controls.
- 6.3 It is the responsibility of each manager or Head of Department or activity to which funds are allotted, to plan and conduct assigned operations so as not to expend more funds than budgeted. In addition, they have the responsibility to identify and report any irregular or fruitless and wasteful expenditure in terms of the MFMA section 78 and 102.

## **7. VIREMENT RESTRICTIONS**

- 7.1 No funds can be transferred between votes (GFS Classifications) and can only be done through an adjustment budget.
- 7.2 Virements may not exceed a maximum of R 200,000 per case. Anything above that amount must be referred to the Accounting Officer for recommendation and Council approval.
- 7.3 A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years.
- 7.4 Virements resulting in adjustments to the approved SDBIP need to be submitted with an adjustment budget to the Council with reviewed outputs and measurements for approval.
- 7.5 No Virement may commit the municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Council. This refers to expenditures such as entering into lease or rental agreements e.g. vehicles, photo copiers or fax machines.
- 7.6 No Virement may be made where it would result in over expenditure.
- 7.7 No Virement shall add to the establishment of the Municipality without the approval of the Municipal Manager.
- 7.8 If the Virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply.
- 7.9 Virements may not be made in respect of ring-fenced allocations.
- 7.10 Budget may not be transferred from Support service (interdepartmental) costs, Capital financing, Depreciation, Contributions, Grant Expenditure and Income Foregone.



- 7.11 Virements in the Capital budget allocations are only permitted within specified action plans and not across funding sources and must in addition have comparable asset lifespan classifications.
- 7.12 No virements are permitted in the first three months or the final month of the financial year except in unforeseen or unavoidable cases/situations.
- 7.13 No Virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of the Department, as recorded on the signed Virement form.
- 7.14 An approved Virement does not give expenditure authority and all expenditure resulting from approved virements must still be subject to the procurement / supply chain management policy of Council as periodically reviewed.
- 7.15 Virements may not be made between Expenditure and Income.
- 7.16 Virements may not be done on Entertainment allowance and Traveling & Subsistence votes unless the approval has been granted by the Accounting Officer in writing.
- 7.17 The total amount transferred from and to line items within a particular vote in any financial year may not exceed 10% of the amount allocated to that vote.
- 7.18 The total amount transferred from and to line items in the entire budget in any financial year may not exceed 10 % of the total operating budget for that year.
- 7.19 A transfer which exceeds, or which would result in the exceeding of, any of the limits referred to above may, however, be performed if the Council by resolution approves thereof.
- 7.20 If any line item has been specifically ring-fenced, no transfer of funds may be made under this policy to or from such line item.
- 7.21 Transfers of funds may not be made under this policy between or from capital items or projects.

- 7.22 By definition, transfers may not be made under this policy from a line item administered by one department to a line item administered by another.
- 7.23 In accordance with Section 30 of the MFMA, no transfer of funds may be made from a line item of a budget for a particular year to a line item of a budget for a subsequent year.
- 7.24 The transfer of funds in any year in accordance with this policy shall not give rise to any expectations of a similar transfer occurring in a subsequent year.
- 7.25 No transfer of funds shall be made if such transfer would constitute a transgression or contravention of any statute, regulation or other law, any policy, directive or guideline binding upon the Municipality, or the avoidance by the Municipality of any obligation imposed upon it by contract or any other cause.
- 7.26 The transfer of funds must in any event not contravene the provisions of paragraph 4.6 of MFMA Circular 51 (Municipal Budget Circular for the 2010/2011 MTREF) issued on 19 February 2010, which provides, inter alia, as follows:
- i. Virements should not be permitted in relation to the revenue side of the budget;
  - ii. Virements between votes should be permitted where the proposed shifts in funding facilitate sound risk and financial management (e.g. the management of central insurance funds and insurance claims from separate votes);
  - iii. Virements from the capital budget to the operating budget should not be permitted;
  - iv. Virements towards personnel expenditure should not be permitted;
  - v. Virements to or from the following items should not be permitted: bulk purchases; debt impairment, interest charges; depreciation, grants to individuals, revenue foregone, insurance and VAT;
  - vi. Virements should not result in adding 'new' projects to the Capital Budget;

- vii. Virements of conditional grant funds to purposes outside of that specified in the relevant conditional grant framework must not be permitted.

7.27 A transfer of funds from one line item to another may take place only if savings within the first-mentioned line item are projected, and such transfer may, subject in any event to the provisions of this policy, not exceed the amount of such projected savings.

## **8. VIREMENT PROCEDURE**

8.1 All virement proposals must be completed on the appropriate documentation and forwarded to the Budget Office for checking and implementation.

8.2 All virements must be signed by the Vote holder (per department) and the Manager within which the vote is allocated.

8.3 Approval in terms of the above must be obtained from the Chief Financial Officer and the Accounting Officer.

8.4 All virements requires an approval/recommendation from the Chief Financial Officer and final approval from the Accounting Officer.

8.5 All documentation must be in order and approved before any expenditure can be committed or incurred.

8.6 Proposals for transfers may be made by the Head of Department concerned.

8.7 The Municipal Manager shall prescribe a form on which all proposals for transfers of funds under this policy shall be made, which form shall include, but not be limited to, provisions for the following:

- i. the name of the department concerned;
- ii. descriptions of the line items from and to which the transfer is to be made;
- iii. the amount of the proposed transfer;
- iv. the cause of the saving in the line item from which the transfer is to be made;

- v. the justification for the transfer;
  - vi. a description of any consequences that such transfer may have for the Integrated Development Plan or the Service Delivery and Budget Implementation Plan.
- 8.8 Each proposal for a transfer shall be submitted by the Head of Department concerned to the Chief Financial Officer for consideration and recommendation to the Accounting Officer.
- 8.9 Upon a proposal for transfer being approved, such transfer shall be implemented subject to compliance with the Municipality's Supply Chain Management Policy.

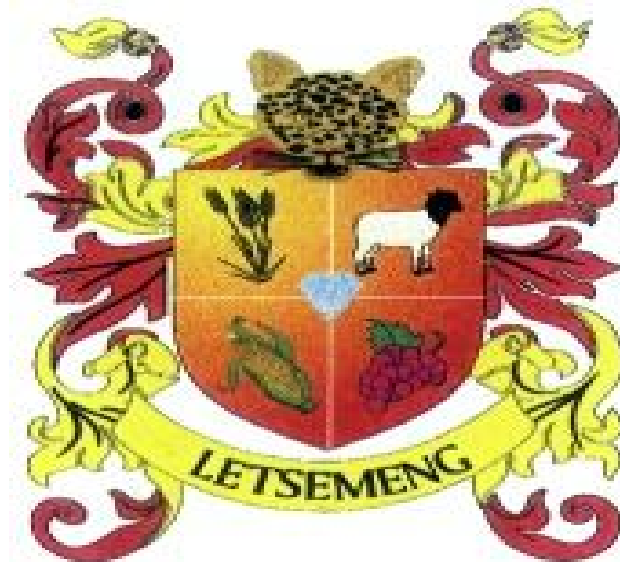
## **9. REPORTING**

- 9.1 The Municipal Manager shall submit a report on all transfers made under this Policy to the Mayor every quarter (September; December; March; June) in line with section 79 of MFMA.

## **10. GENERAL**

- 10.1 The Municipal Manager shall be responsible for the implementation and administration of this Policy.
- 10.2 This policy will be effective on the date of adoption by Council.

# Letsemeng Local Municipality



## Credit Control and Debt Collection Policy

## 1. DEFINITIONS

For the purpose of this policy, the wording or any expression used has the same meaning as contained in the Act, except where clearly indicated otherwise and means the following:

**"Act"**, the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000) as amended from time to time;

**"Authorized Representative"**, the person or institution legally appointed by the Council to act or to fulfil a duty on its behalf;

**"Chief Financial Officer"** the person appointed by Council to administer its finances;

**"Council"** the municipal council of the Letsemeng Local Municipality;

**"customer"** any occupier and/or owner of any property to which the municipality has agreed to supply services or already supplies services to, or failing such an occupier, then the owner of the property;

**"defaulter"** a person who owes money to municipality after the due date has expired;

**"equipment"** a building or other structure, pipe, pump, wire, cable, meter, engine or any accessories;

**"interest"** a charge levied with the same legal priority as service fees and calculated at a rate determined by council from time to time on arrear monies;

**"municipality"** includes a municipality referred to in section 155 (6) of the Constitution;

**"municipal account"** an account rendered specifying charges for services provided by the municipality, or any authorised and contracted service provider, and/or assessment rates levies;

**"Municipal Manager"** the person appointed as Municipal Manager in terms of section 82 of the Local Government: Structures Act, 1998, (Act 117 of 1998) and include any person acting in that position or to whom authority was delegated;

**"municipal services"** those services provided by the municipality, such as,

inter alia the supply of water and electricity, refuse removal, sewerage treatment, and for which services charges are levied;

**"occupier"** any person who occupies any property or part thereof, without taking cognisance of the title in which he or she occupies the property,

**"owner" –**

(a) the person in whose name the property is legally vested;

(b) in the case where the person in whose name the property is vested, is insolvent or deceased, or is disqualified in terms of any legal action, the person who is responsible for administration or control of the property as curator, trustee, executor, administrator, legal manager, liquidator, or any other legal representative;

(c) in the case where the council are unable to establish the identity of such person, the person who are entitled to derive benefit from the property or any buildings thereon;

(d) in the case of a lease agreement in excess of 30 years was entered into, then the lessee;

(e) regarding:

(i) a portion of land allotted on a sectional title plan and which is registered in terms of the Sectional Title Act, 1986 (Act 95 van 1986), without limiting it to the developer or managing body to the communal property;

(ii) a portion as defined in the Sectional Title Act, the person in whose name that portion is registered in terms of a "sectional title, including the legally appointed representative of such person;

(f) any legal entity including but not limited to :

(i) a company registered in terms of the Companies Act, 1973 (Act 61 of 1973), a trust *inter vivos*, trust *mortis causa*, a closed corporation registered in terms of the Close Corporation Act, 1984 (Act 69 of 1984), and any (ii) any provincial or national government department or local authority;

(iii) any council or management body established in terms of any legal framework applicable to the Republic of South Africa; and

(iv) any embassy or other foreign entity.

**"property"** any portion of land, of which the boundaries are determined, within the jurisdiction of the municipality; voluntary organisation;

## **2. CONSTITUTIONAL OBLIGATIONS**

2.1 The council of the municipality, in adopting this policy on credit control and debt collection, recognises its constitutional obligations to develop the local economy and to provide acceptable services to its residents.

2.2 It simultaneously acknowledges that it cannot fulfil these constitutional obligations unless it exacts payment for the services which it provides and for the taxes which it legitimately levies – in full from those residents who can afford to pay, and in accordance with its indigence relief measures for those who have registered as indigents in terms of the council's approved indigent support policy.

## **3. CODE OF CONDUCT**

3.1 All the municipal officials shall treat all debtors with dignity and respect at all times. Employees shall execute their duties in an honest and transparent manner whilst protecting the confidentiality of information in accordance with the Promotion of Access to Information Act No.2 of 2000.

## **4. VISION AND MISSION OF THE POLICY**

4.1 The vision and mission of the credit control and debt collection policy is:

4.1.1 To ensure that all consumers pay for the services that are supplied and consumed according to the approved tariff structure of the municipality.



- 4.1.2 To ensure that all consumer account related enquiries are attended to promptly and diligently.
- 4.1.3 To attend to all the consumers' needs regarding credit control in such manner that it should not be necessary to have property or goods attached for a sale in execution unless under the most extreme circumstances..
- 4.1.4 To ensure that municipal credit control officials are sufficiently trained and that they will be able to attend to all credit control related functions and enquiries.
- 4.1.5 To ensure sufficient notification of outstanding debt to consumers in default.
- 4.1.6 To provide consumers timeously with monthly statements in order to allow for sufficient payment period before due date.
- 4.1.7 To ensure sufficient and effective interaction with defaulters and to allow for the conclusion of arrangements for the payment of arrears over agreed periods of time.
- 4.1.8 To provide monthly, with the financial report, the payment default position to the mayor.

## **5. OBJECTIVES**

5.1 The objectives of this policy are to provide for:

- 1. Credit control procedures and mechanisms.
- 2. Debt collection procedures and mechanisms.
- 3. Relief to indigent households that are consistent with the municipality's
- 4. Policy on indigent support and free services.
- 5. The termination or restriction of services when payments are in arrear.

6. Procedures relating to unauthorised consumption of services, theft and damages.
7. Guidelines and procedures for the rendering of accounts.
8. Realistic targets/benchmarks as set by the municipality which is consistent with:
  - a. General recognised accounting practices and collection ratios.
  - b. The estimate income set in the budget minus an acceptable provision for bad debts.

## **6. PRINCIPLES**

6.1 In the execution of its customer care, credit control and debt collection policy the municipality will apply the following principles:

- a) The administrative integrity of the municipality will be maintained at all costs meaning that democratically elected councillors are responsible for the adoption of the policy, while the Municipal Manager must execute the policy.
- b) All customers must complete an official application form, formally requesting the municipality to connect them to service supply lines
- c) Changes to legislation, by-laws and policies may require existing customers to complete new application forms.
- d) A copy of the application form, conditions of services and extracts of the customer care, credit control and debt collection policy and bylaw must be handed to every customer on request at such fees as may be prescribed.
- e) Billing is to be accurate, timeous and understandable.
- f) The customer is entitled to reasonable access to pay points; a variety of reliable payment methods; and an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of such an appeal.
- g) Enforcement of payment must be prompt, consistent and effective.
- h) Unauthorised consumption, illegal connection, the tampering with or theft of meters, service supply equipment and the reticulation network and any fraudulent activity in connection with the provision of municipal

services will lead to disconnections, penalties, loss of rights and criminal prosecutions.

- i) Incentives and disincentives may be used in collection procedures.
- j) The collection process must be cost-effective.
- k) The executive mayor must report the customer care, credit control and debt collection performance results, regularly and efficiently to Council.
- l) Application forms will be used to, *inter alia*, categorise customers according to credit risk and to determine relevant levels of services and deposits required.
- m) Targets for performance in both customer service, credit control and debt collection will be set and pursued and remedies implemented for non-performance.
- n) Where practically possible customer care, credit control and debt collection should be handled independently and the organisational structure will reflect the separate functions.

## **7. EXPECTED PAYMENT LEVELS**

- 7.1 In terms of the budgets approved by the council, and in accordance with commonly accepted best practice, the municipality will have to strive to its utmost to ensure that payment levels for the present and future financial years, in respect of all amounts legitimately owing to the municipality – that is, inclusive of the balance of the monthly accounts payable by registered indigents – are maintained at an annual average of at least 95%.
- 7.2 It is generally accepted by this council that payment levels averaging below 85% per month are untenable, and are a certain forerunner of financial disaster for this municipality. Even with payment levels of 85% it means that the council will annually have to provide on its expenses budget a contribution to bad debts of 15% of the aggregate revenues legitimately owing to this municipality – a contribution that is made at the direct cost of improved service delivery and developmental projects.
- 7.3 The only solution to the ongoing problem of non-payment by residents who can afford their monthly commitments to the municipality is to introduce a twofold approach: to promulgate credit control and debt collection by-laws which deal stringently with defaulters, but at the same time – through the formal political structures of the municipality, and in the administration's general dealings with the public – to make the community aware of its legal obligations towards the municipality, and to emphasise the negative

consequences for all if non-payment continues. The municipality's ward committees are particularly charged with this responsibility.

## **8. NOTICE OF DEFAULT AND TERMINATION OR RESTRICTION OF SERVICES**

- 8.1 After due date or as soon as possible there after the Credit Control Section will start with the blocking of the pre-paid electricity and the restriction of water on all premises where the municipal account is in arrears. During this process a letter to this effect will be delivered at the relevant premises.

## **9. RECONNECTION OR REINSTATEMENT OF TERMINATED OR RESTRICTED SERVICES**

- 9.1 Services to defaulting accountholders terminated or restricted in terms of this policy shall be reconnected or reinstated by the municipal manager only when all the following conditions have been met:

- i. the arrear account has been paid in full, including the interest raised on such account; or an acceptable arrangement has been made with the municipal manager for the payment of the arrear account, including the interest raised on such account;
- ii. the charge(s) for the notice sent in terms of this policy and for the reconnection or reinstatement of the terminated or restricted service(s), as determined by the council from time to time, have been paid in full;
- iii. a service contract has been entered into with the municipality, as contemplated in this policy; and
- iv. a cash deposit has been lodged with the municipal manager in compliance with this policy, such deposit to be newly determined on the basis of currently prevailing consumption and usage of services in respect of the property concerned or, if insufficient data is available with regard to such consumption, of the currently prevailing consumption and usage of services in respect of a comparable property.

- 9.2 In the case of consumers using prepaid meters, but who have fallen into arrears with the remainder of their obligations to the municipality, no prepaid purchases shall be accepted until the outstanding arrears have been settled or an acceptable arrangement made for the payment of the arrear account, as contemplated above: such arrangement may entail the

limitation of the amount of prepaid services which may be purchased until the arrears or a stated percentage of the arrears has been settled.

## **10. PERIODS FOR RECONNECTIONS OR REINSTATEMENTS**

- 10.1 The municipal manager shall reconnect or reinstate terminated or restricted services within 3 (three) working days after the date on which the conditions set out in this policy have been met, unless the municipal manager is unable to do so because of circumstances beyond the control of the municipality.
- 10.2 In the latter event the municipal manager shall promptly inform the mayor of such circumstances and of any actions required to overcome the circumstances concerned.

## **11. ILLEGAL RECONNECTIONS**

- 11.1 The municipal manager shall, as soon as it comes to the notice of the municipal manager that any terminated or restricted service has been irregularly reconnected or reinstated, report such action to the South African Police Service, disconnect or restrict such service(s), and not reconnect or reinstate such service(s) until the arrear account, including the interest raised on such account, the charges for the notice sent in terms of this policy and the charges for both the original and subsequent reconnection or reinstatement of the service(s) and the revised deposit have been paid in full, together with such penalty as may be determined by the council from time to time. In addition, all metered consumption since the date of the illegal reconnection, or the estimated consumption if a reliable meter reading is not possible, shall also be paid full before any reconnection or reinstatement is considered.

## **12. RESTRICTION OF SERVICES**

- 12.1 If the municipal manager is of the opinion that the termination of services, in the case of a particular property in respect of which the account is in arrear, is not in the best interests of the community – specifically because of the potential endangerment of the life of any person, whether resident in or outside the property concerned – the municipal manager may appropriately restrict rather than terminate the services in question.

## **13. SERVICES NOT RECONNECTED OR REINSTATED AFTER FOUR WEEKS**

- 13.1 If services have been terminated or restricted in the case of a property in respect of which the account is in arrear, and the accountholder has not paid such arrears, including the interest raised on such account, or made an acceptable arrangement with the municipal manager for the payment of the arrear account, including the interest raised on such account, within a period of 28 (twenty eight) calendar days after the date of termination or restriction of the service(s) concerned, the municipal manager shall forthwith hand such account over for collection and such further action as is deemed necessary to the municipality's attorneys or any debt collecting agency appointed by the council. Such further action shall include if necessary the sale in execution of such property to recover arrear property rates and service charges (if the accountholder is also the owner of the property). All legal expenses incurred by the municipality shall be for the account of the defaulting accountholder.

#### **14. ARRANGEMENTS FOR PAYMENT OF ARREAR ACCOUNTS**

- 14.1 Allowing defaulting accountholders to make arrangements for the payment of arrear accounts shall be at the discretion of the municipal manager.
- 14.2 Each defaulting accountholder shall be allowed a maximum period of 9 (nine) months within which to pay an arrear account, together with the interest raised on such account, and it shall be a condition for the conclusion of any arrangement that the accountholder is bound to pay every current municipal account in full and on time during the period over which such arrangement extends.
- 14.3 If an accountholder breaches any material term of an arrangement, the balance of the arrear account, together with the balance of interest raised on such account, shall immediately become due and payable to the municipality, and if the accountholder defaults on such payment, the municipal manager shall terminate or restrict services to the property in question and shall forthwith hand such account over for collection as envisaged in this policy.
- 14.4 An accountholder who has breached an arrangement as set out above shall not be allowed to make any further arrangements for the payment of arrear accounts, but shall be proceeded against, after the dispatch of the initial notice of default as envisaged in this policy and failure by the accountholder to pay the arrear account, together with interest raised on such arrears as required in terms of such notice, as though such accountholder had breached a material term of an arrangement.

#### **15. SERVICE CONTRACT**

- 15.1 A service contract shall henceforth be entered into with the municipality for each property to which the municipality is expected to provide all or any of the following services:
- a) electricity
  - b) water
  - c) refuse collection
  - d) sewerage.
- 15.2 Such contract shall set out the conditions on which services are provided and shall require the signatory to note the contents of the municipality's credit control and debt collection policy, a copy of which shall be provided to such signatory, as well as the provision of the Municipal Systems Act in regard to the municipality's right of access to property.
- 15.3 Where the signatory is not the owner of the property to which the services are to be provided, a properly executed letter from such owner indicating that the signatory is the lawful occupant of the property shall be attached to the service contract.
- 15.4 Current consumers and users of the municipality's services who have not entered in a service contract as envisaged above, must do so within 2 years from the date on which the by-laws to implement the present policy are published, and failure to do so shall be considered as a default equivalent to non-payment in terms of part 3 above.

## **16. PAYMENT OF DEPOSITS**

- 16.1 Whenever a service contract is entered into in terms of this policy, the signatory shall lodge a cash deposit with the municipality, such deposit to be determined as follows:
- a) In the case of the signatory's being the registered owner or spouse of the registered owner of the property concerned, an amount equal to one month of the relevant service(s) provided to the property over the immediately preceding 12 (twelve) month period, or – where no such information is available – one quarter of the aggregate monetary value of the relevant service(s) provided to a comparable property over the immediately preceding 12 (twelve) month period;

- b) In the case of the signatory **not** being the registered owner or spouse of the registered owner of the property concerned, an amount equal to three months consumption must be paid.

## **17. ALLOCATION OF PART-PAYMENTS AND APPROPRIATION OF DEPOSITS**

17.1 If an accountholder pays only part of any municipal account due, the municipal manager shall allocate such payment as follows:

- a) firstly, to any unpaid charges levied by the municipality in respect of unacceptable cheques, notices, legal expenses and reconnections or reinstatements of services in respect of the account or property concerned
- b) secondly, to any unpaid refuse charges;
- c) thirdly, to any unpaid sewerage collection charges;
- d) fourthly, to any unpaid water rates;
- e) fifthly, to any unpaid electricity charges; and
- f) lastly, to any unpaid rates charges.

17.2 This sequence of allocation shall be followed notwithstanding any instructions to the contrary given by the accountholder.

17.3 In the event of an accountholder's defaulting on the payment of an arrear account, as contemplated in this policy, the municipal manager shall forthwith appropriate as much of such deposit as is necessary to defray any costs incurred by the municipality and the arrear amount owing to the municipality in the same sequence that is applicable to the allocation of part payments, as contemplated above.

## **18. QUERIES BY ACCOUNTHOLDERS**

18.1 In the event of an accountholder reasonably querying any item or items on the monthly municipal account, no action shall be taken against the accountholder as contemplated in this policy provided the accountholder has paid by due date an amount equal to the monthly average monetary value of the three most recent unqueried accounts in respect of the service under query, as well as all unqueried balances on such account, and provided further such query is made in writing by the accountholder or is recorded in



writing by the municipal manager on behalf of the accountholder on or before the due date for the payment of the relevant account. Any query raised by an accountholder in the circumstances contemplated in the section below shall not constitute a reasonable query for the purposes of the present paragraph.

## **19. INABILITY TO READ METERS**

- 19.1 If the municipality is unable to read any meter on any property because the meter has been rendered inaccessible through any act or omission of the accountholder or owner of the property concerned, the municipal manager shall estimate the consumption of the service concerned by determining the monthly average of the metered consumption recorded on the three most recent accounts in respect of which meter readings were obtained, and thereafter bill the accountholder for the monetary value of such estimated consumption. It needs to be stressed that once a correct reading has been obtained, the correct levy will be debited and the previous levy will be reversed.

## **20. DISHONoured AND OTHER UNACCEPTABLE CHEQUES**

- 20.1 If an accountholder tenders a cheque which is subsequently dishonoured by or is found to be unacceptable to the accountholder's bankers, the municipal manager shall – in addition to taking the steps contemplated in this policy against defaulting accountholders – charge such accountholder the penalty charge for unacceptable cheques, as determined by the council from time to time, and such charge shall rank equally with the costs and expenses incurred by the municipality for purposes of determining the sequence of allocations and appropriations contemplated in this policy.

## **21. DELEGATION OF RESPONSIBILITIES BY MUNICIPAL MANAGER**

- 21.1 The municipal manager, including any person acting in such capacity, shall be responsible to the council for the implementation of this policy and its attendant by-laws but – without in so doing being divested of such responsibility – may delegate in writing all or any of the duties and responsibilities referred to in these by-laws to any other official or officials of the municipality, and may from time to time in writing amend or withdraw such delegation(s).

## **22. ROLE OF MUNICIPAL MANAGER**

- 22.1 Section 100 of the Municipal Systems Act 2000 clearly assigns the legal responsibility for implementing the credit control and debt collection policies and by-laws to the municipal manager.
- 22.2 In practice, however, the municipal manager will inevitably delegate some or many of the responsibilities specifically assigned to this office in the by-laws, as it will be administratively impossible for the municipal manager to perform the numerous other functions of this office as well as attend to frequently recurring administrative responsibilities. However, such delegation does not absolve the municipal manager from final accountability in this regard, and the municipal manager will therefore have to ensure that a proper internal reporting structure is established and consistently implemented so that the day-to-day actions of and results from the credit control and debt collection programme are properly monitored and supervised.
- 22.3 It is also an integral feature of the present policy that the municipal manager shall report monthly to the mayor, as the case may be, and quarterly to the council on the actions taken in terms of the by-laws, and on the payment levels for the periods concerned. Such reports shall, as soon as practicably possible, provide the required information both in aggregate and by municipal ward.
- 22.4 In addition, such monthly report shall indicate any administrative shortcomings, the measures taken or recommended to address such shortcomings, and any actions by councillors which could reasonably be interpreted as constituting interference in the application of the by-laws.
- 22.5 Notwithstanding all the foregoing references to the accountability of the municipal manager in regard to these by-laws, it is incumbent on all the officials of the municipality, certainly all those who are at management level, as well as more junior officials who are directly or indirectly involved with the community and the municipality's general customer relations, to promote and support both this credit control and debt collection policy and the application of the attendant by-laws.
- 22.6 The responsibilities of all officials include reporting to the municipal manager any evident breaches of these by-laws, whether by members of the community, other officials or councillors of the municipality.

## **23. ROLE OF COUNCILLORS**

- 23.1 Section 99 of the Systems Act 2000 places the important legal responsibility on the executive mayor or executive committee, as the case may be, of

monitoring and supervising the application of the present policy and the attendant by-laws, and of reporting to the council on the extent and success of credit control actions.

- 23.2 The present policy further recommends that the municipality's ward committees be actively involved in implementing the credit control and debt collection programme, and should therefore receive monthly reports on the status of the municipal manager's credit control actions. The ward committees must also actively promote the present policy, and ensure at the same time that the municipality's customer relations are of a standard acceptable to the community.
- 23.3 In order to maintain the credibility of the municipality in the implementation of the present policy and the attendant by-laws, it is essential that councillors should lead by example. Councillors, by adopting this policy, therefore pledge, not only their unqualified support for the policy, but their commitment to ensuring that their own accounts will at no stage fall into arrears.

#### **24. INTEREST ON ARREARS AND OTHER PENALTY CHARGES**

- 24.1 Interest shall be charged on all arrear accounts at the prevailing overdraft rate offered by the municipality's bankers plus 2 (two) percentage points.
- 24.2 If the municipality uses more than one banking institution it shall for purposes of determining the interest on arrear accounts apply the overdraft rate offered by the institution with which its primary bank account is placed.
- 24.3 Interest shall be calculated on a daily basis. For purposes of determining arrear amounts, all amounts unpaid including interest previously raised and penalty charges, but excluding value added tax, shall be taken into account.
- 24.4 In considering each annual budget the council shall review the adequacy of its interest charges, and shall determine the following for the financial year concerned:
- a) charges for disconnection or restriction of services
  - b) charges for reconnection or reinstatement of services
  - c) charges for notices of default
  - d) penalty charges for illegal reconnections

- e) penalty charges for dishonoured cheques

## **25. INDIGENCY MANAGEMENT**

- 25.1 In regard to the payments expected from registered indigents, and the credit control and debt collection actions contemplated in respect of such residents, this policy must be read in conjunction with the municipality's approved policy on indigent support management.

## **26. UNCOLLECTABLE ARREARS**

- 26.1 The effective implementation of the present policy also implies a realistic review of the municipality's debtors book at the conclusion of each financial year. The municipal manager shall as soon as possible after 30 June each year present to the council a report indicating the amount of the arrears which it is believed is uncollectable, together with the reasons for this conclusion.
- 26.2 The council shall then approve the write off of such arrears, if it is satisfied with the reasons provided.

## **27. ARREARS WHICH HAVE ARISEN PRIOR TO THE ADOPTION OF THE PRESENT POLICY**

- 27.1 The council shall separately consider arrears which arose prior to the adoption of the present policy, and shall advise accountholders of their respective obligations in regard to such arrears. In determining such obligations, the council shall have regard to the quantum of such arrears, to the period over which the default occurred, and to whether the accountholder concerned has registered as an indigent in terms of the municipality's policy on indigent support management.

## **28. BY-LAWS TO BE ADOPTED**

- 28.1 By-laws shall be adopted to give effect to the council's credit control and debt collection policy.
- 28.2 These by-laws deal severely with defaulters, and their application requires a considerable degree of commitment from the municipal manager and his or her administration, as well as from the municipality's political structures.

For these by-laws to ensure the avoidance of financial misfortunes for the municipality, and to lead to sustained financial stability, their application will have to receive the constant attention of all the municipality's key role-players and decision makers. If these by-laws are not constantly and consistently applied, from month to month and from year to year, the municipality's political and administrative credibility will be severely impaired, and it may not be able to avert financial collapse in the long run.

- 28.3 Although these by-laws envisage even the termination of basic services for defaulting accountholders this will not in itself – no matter how harsh it may seem to those councillors and officials who are disposed to greater leniency – prevent the accumulation of arrears. The monthly billing for property rates, sewerage charges and refuse removal fees will continue in respect of defaulting accountholders, even though their consumption of electricity and water may have been terminated or restricted. The termination or restriction of services must therefore be seen merely as a vital first step in the credit control programme, and the commitment by the municipality to follow up such actions with the full force of the law at the municipality's disposal is an essential further step if the accumulation of debts is to be meaningfully curtailed.
- 28.4 The by-laws comply with the requirements of the Municipal Systems Act 2000, the Water Services Act 1997 and the Municipal Finance Management Act 2003.
- 28.5 The by-laws also deal with the determination and payment of consumer deposits, and in accordance with part 11 of the present policy effectively differentiate in this respect between accountholders who are both the owners and occupiers of the fixed property concerned, on the one hand, and accountholders who are tenants of such properties, on the other. This differentiation is essential if the municipality wishes to protect its interests in so far as tenants are concerned, but – in any event – it is not believed that a degree of differentiation imposes an unreasonable financial burden on such tenants (effectively the deposit required from owners/occupiers represents three months average consumption whereas the deposit in the case of tenants represents four months consumption).
- 28.6 It is not proposed that accountholders who have currently not lodged deposits should be required to do so forthwith, but only within a two-year period, but that accountholders who default at any future date should be immediately obliged both to sign proper service contracts and to lodge the deposits required in terms of both such contract and the by-laws.

# Letsemeng Local Municipality



## Funding and Reserves Policy

# **PART 1: INTRODUCTION**

## **1. OVERVIEW**

- 1.1 The funding of operating and capital budgets is done on an annual basis for a three year horizon. The budget must be balanced from both accounting perspective as well as a cash perspective.
- 1.2 The Council set as a long term objective a financially sustainable municipality with acceptable levels of service delivery to the community. Therefore, this policy aims to set standards and guidelines towards ensuring financial viability and sustainability over both the short-term and long-term and includes funding as well as reserves requirements.

## **2. OBJECTIVE OF THE POLICY**

- 2.1 The objective of the policy is to set out the assumptions and methodology for estimating the following:
  - a) Projected billings, collections and all direct revenues;
  - b) The provision for revenue that will not be collected;
  - c) The funds the municipality can expect to receive from investments;
  - d) The municipality's borrowing requirements;
  - e) The funds to be set aside in reserves;
  - f) The proceeds the municipality can expect to receive from the transfer or disposal of assets;
- 2.2 Furthermore; the policy is aimed at ensuring that the operating and capital budgets of council are appropriately funded and to ensure that provisions and reserves are maintained at the required levels to avoid future year unfunded liabilities.

## **3. GUIDING PRINCIPLES**

- 3.1 Letsemeng Local Municipality's Funding and Reserves Policy is based on the following principles:
  - a) Affordability,

- b) Financial sustainability
- c) Equity, and
- d) Efficacy

## **PART 2: FUNDING POLICY**

### **1. LEGISLATIVE REQUIREMENTS**

- 1.1 In terms of Sections 18 and 19 of the Municipal Finance Management Act (Act No 56 of 2003) (MFMA), an annual budget may only be funded from:
  - 1.1.1 Realistically anticipated revenues to be collected;
  - 1.1.2 Cash backed accumulated funds from previous years' surpluses not committed for other purposes.
  - 1.1.3 Borrowed funds, but only for capital projects.
- 1.2 Furthermore, spending on a capital project may only be commenced once the funding sources have been considered, are available and have not been committed for other purposes.
- 1.3 The requirements of the MFMA are therefore clear in that the budget must be cash funded i.e. cash receipts inclusive of prior cash surpluses must equal or be more than cash paid.
- 1.4 In determining whether the budget is actually cash funded and ensuring long term financial sustainability, the municipality will use analytical processes, including those specified by National Treasury from time to time.

### **2. BASIS FOR APPROVAL**

- 2.1 The Council will not approve an annual budget which is not cash funded or where any of the indicators as listed in this document are negative, unless acceptable reasons can be provided for non-compliance, and provided that the requirements of the Municipal Finance Management Act (including circulars and guidelines) have been considered.



### **3. CASH MANAGEMENT**

- 3.1 Cash must be managed in terms of the municipality's Cash Management and Investment Policy, together with any requirements in this policy.

### **4. DEBT MANAGEMENT**

- 4.1 Debt must be managed in terms of the municipality's Credit Control and Debt Collection / Management Policy, together with any requirements in this policy.

### **5. FUNDING THE OPERATING BUDGET**

- 5.1 The municipality's objective is that the user of municipal services must pay for such services in the period it occurs. The municipality however, recognises the plight of the poor, and in line with national and provincial objectives, the municipality commits itself to subsidised services to the poor. This will necessitate cross subsidisation in tariffs to be calculated in the budget process.

### **6. PRINCIPLE WHEN COMPILING THE OPERATING BUDGET**

- 6.1 The following specific principles apply when compiling the operating budget:
  - 6.1.1 The budget must be cash funded, i.e. revenue and expenditure projections must be realistic and the provision for impairment of receivables must be calculated on proven recovery rates;
  - 6.1.2 Growth parameters must be realistic and be based on historic patterns adjusted for current reliable information;
  - 3.1.1 Tariff adjustments must be fair, taking into consideration general inflation indicators as well as the geographic region's ability to pay;
  - 3.1.2 Where possible, the tariff must reflect the cost of providing such services;
  - 6.1.5 Revenue from Government Grants and Subsidies must be in accordance with the amounts promulgated in the Division of Revenue

Act, confirmed provincial transfers and any possible transfers to or from other municipalities.

- 6.1.5 For the purpose of the Cash flow budget any National or Provincial grants that have been re-appropriated for roll-over purposes must be excluded from the calculation as it must be included in changes in Cash and Cash Equivalents and Payables.
- 6.1.6 Furthermore, in the budget the total grants recognised as revenue must equal the total expected expenditure from grants, inclusive of capital expenditure and VAT as per directive given in MFMA Circular 48.
- 6.1.7 Projected revenue from services charges must be reflected as net (all billing less revenue foregone, which is free basic services, discounts and rebates).
- 6.1.8 Projected revenue from property rates must include all rates to be levied, but rebates and discounts must be budgeted for as either revenue foregone or a grant, as per directive in MFMA Budget Circular 51, depending on the conditions of the exemption, rebate or reduction.
- 6.1.8 For the purpose of the Cash flow Budget all rebates and discounts must be deducted from the projected revenue.
- 6.1.9 Only changes in fair values related to cash may be included in the cash flow budget. Changes to unamortised discount must be included in the Operating Budget but excluded in the cash flow budget.
- 6.1.10 Employee related costs include contributions to non-current and current employee benefits. It is acknowledged that the non-current benefits' requirements are well above the initial cash capabilities of the municipality, and it is therefore determined that provision for the short term portion of employee benefits, as well as an operating surplus be included in the operating budget, in order to build sufficient cash for these requirements. The cash portion of the employee benefits must be accounted for in an "Employee Benefits Reserve".
- 6.1.11 Depreciation must be fully budgeted for in the operating budget.

6.1.12 In order to ensure a sufficient accumulation of cash for the replacement of Property, Plant and Equipment and Intangible Assets, the amount of depreciation on assets funded from own sources, excluding assets funded from grants, public contributions and external loans must be reflected as a surplus on the cash flow budget.

6.1.13 Contributions to provisions (non-current and current) do not form part of the cash flow. It is however, necessary to provide for an increase in cash resources in order to comply with the conditions of the provision at the time when it is needed.

6.1.14 It is therefore a requirement that the contribution to current provisions, is budgeted as cash surpluses until the necessary funding level is obtained.

## **7. FUNDING THE CAPITAL BUDGET**

7.1 The municipality's objective is to maintain, through proper maintenance and replacement measures, existing levels of service and to improve and implement services which are neglected or non-existent.

7.2 In order to achieve this objective the municipality must annually, within financial means, budget for the replacement of redundant assets as well as new assets.

7.3 The capital budget can be funded by way of own contributions, grants, public contributions as well as external loans.

7.4 The capital budget financed from own contributions must primarily be funded from the Capital Replacement Reserve.

7.5 Notwithstanding the above the capital budget or portions thereof may also be funded from surplus cash. The allocations of the funding sources from own contributions are determined during the budget process.

7.6 Grants for capital expenditure have become a common practice, especially in order to extend service delivery to previously disadvantaged areas. While such grants are welcomed, care should also be taken that unusual grant funding does not place an unreasonable burden on the residents for future maintenance costs which may be higher than their ability to pay.

- 7.7 It is therefore determined that the accounting officer must evaluate the long term effect of unusual capital grants on future tariffs, and if deemed necessary, report on such to Council.
- 7.8 It is furthermore determined that the depreciation charges on assets financed from grants and donations must not have a negative effect on tariffs charged to the users of such assets. The Accounting Officer must put such accounting measures in place to comply with this requirement, to a reasonable extent.
- 7.9 The municipality may only raise loans in accordance with Municipal Finance Management Act and Debt Management Policy.
- 7.10 The Accounting Officer must also put such accounting measures in place to ensure that no unspent portions of loans are utilised for operating purposes. For budgeting purposes any difference between proposed capital spending from loans and proposed loans raised must be included in the cash surplus for the year.

## **8. BASIS OF CALCULATION**

- 8.1 The zero based method is used in preparing the annual capital budget, except in cases where a contractual commitment has been made that would span over more than one financial year.
- 8.2 The annual capital budget shall be based on realistically anticipated revenue (capital loans to be taken up will be deemed to be part of his), which should be equal to the anticipated capital expenditure in order to result in a balanced budget.
- 8.3 The impact of the capital budget on the current and future operating budgets in terms of finance charges to be incurred on external loans, depreciation of fixed assets, maintenance of fixed assets and any other operating expenditure to be incurred resulting directly from the capital expenditure, should be carefully analysed when the annual capital budget is being finalized.
- 8.4 In addition, the council shall consider the likely impact of such operational expenses net of any revenues expected to be generated by such item on future property rates and service tariffs.

## **9. FUNDING COMPLIANCE MEASUREMENT**

- 9.1 It is the intention of the municipality to ensure that the annual budget and adjustment budget complies with the requirements of the Municipal Finance Management Act and this policy. For this purpose a set of indicators must be used as part of the budget process and be submitted with the budget.
- 9.2 These indicators include all the indicators as recommended by National Treasury as well as reconciliations according to this policy. Any additional indicators recommended by National Treasury in future must also be taken into account, as well as any additional reconciliation items as either determined by the Council or the Accounting Officer.
- 9.2.1 Cash and cash equivalents and investments: a positive cash and cash equivalents position throughout the year is crucial. In addition, the forecasted cash position at year-end must at least be the amount as calculated in the reconciliation of cash requirements.
- 9.2.2 Cash plus investments less application of funds: the overall cash position of the municipality must be sufficient to include: unspent conditional grants; unspent conditional public contributions; unspent borrowings; VAT due to SARS; secured investments; the cash portion of statutory funds such as the Housing Development Fund; other working capital requirements; and it must be sufficient to back reserves as approved by the municipality and the portions of provisions as indicated elsewhere in this policy.
- 9.2.3 Monthly average payment covered by cash and cash equivalents ("cash coverage"): this indicator shows the level of risk should the municipality experience financial stress.
- 9.2.4 Surplus/deficit excluding depreciation offsets: in certain circumstances, the operating budget, which includes depreciation charges on assets funded by grants and public contributions, as well as on revalued assets, will result in a deficit. In order to ensure a "balanced" budget but excluding such depreciation charges, the depreciation charges may be offset against the net surplus / deficit. Should the budget result in a deficit after the offsetting, the budget will be deemed unfunded and must be revised.
- 9.2.5 Property rates/service charge revenue percentage increase less macro inflation target: the intention of this indicator is to ensure that tariff increases are in line with macro-economic targets, but also to ensure that revenue increases for the expected growth in the geographic area is realistically calculated.

- 9.2.6 Cash collection rate: the object of the indicator is to establish whether the projected cash to be collected is realistic and complies with section 18 of the MFMA. The collection rate for calculating the provision for impairment of receivables must be based on past and current performance. Past experience refers to the collection rates of the prior years and current performance refers to the collection rate of the current financial year as from 1 July.
- 9.2.7 Debt impairment expense as a percentage of billable revenue: this indicator provides information whether the contribution to the provision for impairment of receivables is adequate. In theory it should be equal to the difference between 100% and the cash collection rate, but other factors such as past performance might have an influence on it. Any difference, however, must be motivated in the budget report.
- 9.2.8 Capital payments as a percentage of capital expenditure: this indicator provides information as to the timing for payments on capital projects and utilising allowed payment terms.
- 9.2.9 Borrowing as a percentage of capital expenditure (excluding grants and contributions): this indicator provides information as to compliance with the MFMA in determining borrowing needs.
- 9.2.10 Grants revenue as a percentage of grants available: the percentage should never be less than 100% and the recognition of expected unspent grants at the current year-end as revenue in the next financial year must be substantiated in a report.
- 9.2.11 Consumer debtors change (current and non - current): the object of the indicator is to determine whether budgeted reductions in outstanding debtors are realistic. An unacceptable high increase in either current or non-current debtors' balances should be investigated and acted upon.
- 9.2.12 Repairs and maintenance expenditure level: it is of utmost importance that the municipality's Property Plant and Equipment be maintained properly, in order to ensure sustainable service delivery. The budget should allocate sufficient resources to maintain assets and care should be exercised not to allow a declining maintenance program in order to fund other less important expenditure requirements. Similarly, if the maintenance requirements become excessive, it could indicate that a capital renewal strategy should be implemented or reviewed. As a general benchmark the maintenance budget should be between 4% and 8% of the value of assets.

9.2.13 Asset renewal/rehabilitation expenditure level: this indicator supports further the indicator for repairs and maintenance. The Accounting Officer must, as part of the capital budget, indicate whether each project is a new asset or a replacement/renewal asset in order to determine whether the renewal program is sufficient or needs revision.

- 9.3 If any of the indicators are negative during the compilation or approval process of the budget, the budget may not be approved until all the indicators provide a positive return, unless any negative indicators can be reasonably explained and future budget projections address the turn-around of these indicators to within acceptable levels.

## **SECTION B: RESERVES POLICY**

### **1. INTRODUCTION**

- 1.1 Fund accounting historically formed a huge part of municipal finance in the IMFO standards. Since the municipality changed to General Recognised Accounting Practices (GRAP), fund accounting is no more allowed.
- 1.2 The municipality, however, recognises the importance of providing to the municipality itself, as well as its creditors, financiers, staff, and general public a measure of protection for future losses, as well as providing the necessary cash resources for future capital replacements and other current and non-current liabilities.
- 1.3 Therefore, this policy aims to provide for such measure of protection by creating certain reserves.

### **2. LEGAL REQUIREMENTS**

- 2.1 There are no specific legal requirements for the creation of reserves, except for the Housing Development Fund. The GRAP Standards itself also do not provide for reserves.
- 2.2 However, the GRAP "Framework for the Preparation and Presentation of Financial Statements" states in paragraph 91 that such reserves may be created, but "Fund Accounting" is not allowed and any such reserves must be a "legal" reserve, i.e. created by law or Council Resolution.

### 3 TYPES OF RESERVES

- 3.1 Reserves can be classified into two main categories being “cash funded reserves” and “non–cash funded reserves”.
- 3.2 **CASH FUNDED RESERVES:** In order to provide for sufficient cash resources for future expenditure, the municipality hereby approves the establishment of the following reserves:
- 3.2.1 **Capital Replacement Reserve (CRR):** the CRR is to be utilised for future capital expenditure from own funds and may not be used for maintenance– or other operating expenditure. The CRR must be cash–backed and the Accounting Officer is hereby delegated to determine the contribution to the CRR during the compilation of the annual financial statements.
- 3.2.2 **Employee benefits reserve:** the aim of the reserve is to ensure sufficient cash resources are available for the future payment of employee benefits. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.
- 3.2.3 **Non-current provisions reserve:** the aim of this reserve is to ensure sufficient cash resources are available for the future payment of non – current provisions. The contributions to the reserve must be made in accordance with the directives set in this Funding Policy.
- 3.2.4 **Valuation reserve:** the aim of this reserve is to ensure sufficient cash resources are available to undertake a General Valuation as per the Municipal Property Rates Act. The contribution to this reserve should be approximately 25% of the anticipated cost of the General Valuation and the Accounting Officer is hereby delegated to determine this amount annually during the compilation of the annual financial statements.
- 3.2.5 **Other statutory reserves:** it may be necessary to create reserves prescribed by law, such as the Housing Development Fund. The Accounting Officer must create such reserves according to the directives in the relevant laws.
- 3.3 **NON – CASH FUNDED RESERVES:** it might be necessary to create non – cash funded reserves for a variety of reasons, including GRAP requirements. The Accounting Officer must create any reserves prescribed by the accounting standards, such as the Revaluation Reserve, if required. The Accounting Officer is hereby delegated and may also in the discretion of the



Accounting Officer, create reserves for future depreciation offsetting, in the absence of a standard similar to IAS 20.

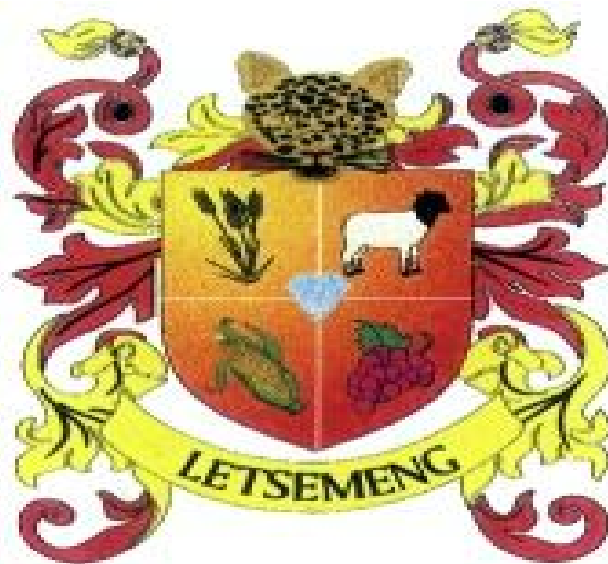
#### **4. ACCOUNTING FOR RESERVES**

- 4.1 Revaluation reserve: the accounting for the Revaluation Reserve must be done in accordance with the requirements of GRAP 17.
- 4.2 Other reserves: the accounting for all other reserves must be processed through the Statement of Financial Performance. The required transfer to or from the reserves must be processed in the Statement of Net Assets to or from the accumulated surplus. It is a condition of GRAP and this policy that no transactions may be directly appropriated against these reserves.

#### **5. REVIEW OF THE POLICY**

- 5.1 This Funding and Reserves Policy is the only policy of the municipality and replaces any past policies in this regard. Any revision of the policy must be approved by the Municipal Council.
- 5.2 Whenever the Minister of Finance or the National Treasury or the Auditor – General requests changes to the policy by way of legislation, changes to GRAP or otherwise, it must be reviewed and submitted for consideration by the Council on an annual basis. Such submission must be accompanied with a full description of the reasons for the change to the policy.

# Letsemeng Local Municipality



## Indigent Support Policy

## **1. OBJECTIVE**

- 1.1 Due to the level of unemployment and subsequent poverty in the municipal area, Council take cognisance of the fact that there are households which are unable to pay for normal municipal services.
- 1.2 Therefore, Council adopts this indigent support policy to ensure that these households have access to at least basic municipal services, and is guided in the formulation of this policy by the national government's policy in this regard.

## **2. PURPOSE**

- 2.1 In terms of section 74 of the Local Government Municipal Systems Act 2000, a Municipality must adopt and implement a Tariff Policy. In terms of section 74(i) of the Act in adopting a Tariff Policy, the municipality should at least take into consideration the extent of subsidisation of tariffs for poor households.
- 2.2 Therefore, the purpose of the indigent policy is to ensure:
  - 2.2.1 The provision of basic services to the community in a sustainable manner, within the financial and administrative capacity of the Council;
  - 2.2.2 To provide procedures and guidelines for the subsidisation of basic service charges to its indigent households, using the Council's budgetary provisions received from Central Government, according to prescribed policy guidelines.
- 2.3 The Council also recognises that many residents can simply not afford the cost of full provision and for this reason the Council will endeavour to ensure affordability through:
  - 2.3.1 Settings tariffs in terms of the Councils Tariff Policy, which will balance the economic viability of continued service delivery; and
  - 2.3.2 Determining appropriate service levels

## **3. QUALIFICATION FOR INDIGENT SUPPORT**

- 3.1 Households where verified total gross monthly income of all occupants over 18 years of age does not exceed two times the official state monthly old age pension, (estimated at R1 200 x 2 = R2 400.00 per month for 2012-13) or such other amount as the Council may from time to time determine, qualify for a subsidy on property rates and service charges for sewerage and refuse removal, and will additionally receive 6 kilolitre of water per month and 50 kilowatts of electricity per month free of charge.
- 3.2 However those Indigents falling within the jurisdiction of ESCOM as a service provider, will get the free 50 kilowatts from ESCOM who must in turn bill the municipality.
- 3.3. Only households where the Accountholder or Property Owner has registered as indigent in terms of the municipality's annual registration programme, and whose registration has been accepted and entered into the register of indigents shall qualify for the above concessions.
- 3.4 For a household to qualify for subsidies or rebates on the major service charges (see the heading "application of the policy" below), the registered indigent must be the full-time occupant of the property concerned, and if not also the owner of the property concerned, may not own any other property, whether in or out of the municipal area.
- 3.5 For a household to qualify for a rebate on rates, the registered indigent must be both the owner and fulltime occupant of the property concerned, and may not own any other property, whether in or out of the municipal area.
- 3.6 Indigent support shall apply for a period not extending beyond the financial year in which the particular household is registered as indigent. Registration must be renewed in each registration programme if relief is to continue.
- 3.7 To register as an indigent, the relevant property owner or accountholder must personally complete and sign the registration form provided by the municipality for this purpose, and furnish such further documentation as the municipality specifies.
- 3.8 The municipal manager will provide assistance to persons who cannot read or write, at such times and places as are specified in the notices published to indicate that the registration programme is to take place.

- 3.9 Indigent registration will take place annually and the status of indigent is conferred for a period of not more than twelve months after which re-application must be made.

#### **4. APPLICATION OF THE POLICY**

- 4.1 The subsidies on rates and the specified service charges will be determined as part of each annual budget and in terms of the municipality's policies on property rates and tariffs.
- 4.2 In respect of water, a 100% subsidy up to 6 kilolitres per household per month will apply.
- 4.3 However, if consumption exceeds 6 kilolitres per metering period (month) the consumer will be charged at normal tariffs for actual consumption on the quantity exceeding 6 kilolitres.
- 4.4 In respect of electricity, a 100% subsidy up to 50 kilowatts per household per month will apply.
- 4.5 However, the consumer must purchase 10 kilowatts of electricity in order to get the next 50 kilowatts free of charge.
- 4.6 If consumption exceeds 50 kilowatts per metering period (month), the consumer will be charged at normal tariffs for actual consumption on the quantity exceeding 50 kilowatts.
- 4.7 In respect of sewerage charges and charges for household refuse removal, the relief granted shall not be less than a rebate of 100% on the monthly amount billed for the service concerned.
- 4.8 In respect of property rates, the rebate shall be 100% of the rates based on the rateable value up to R30 000 and 75% of the rates based on the rateable value above R30 000.

#### **5. NON-COMPLIANCE OF HOUSEHOLDS REGISTERED AS INDIGENT**

- 5.1 When a property owner or accountholder who has registered as an indigent fails to comply with any arrangements or conditions materially relevant to the receipt of indigent support, such person will forfeit his or her status as a registered indigent with immediate effect, and will thereafter be treated as

an ordinary residential property owner or accountholder for the financial year concerned.

- 5.2 The onus is on each registered indigent to advise the municipal manager, or his nominee, of such failure to comply.
- 5.3 It may happen that even with the introduction of the indigent support policy, certain households may fall into arrears in respect of the amounts due by them. The property owner or accountholder concerned will have to make immediate arrangements with the municipal manager or his/her nominee to pay off these arrears owing within a reasonable time determined by the municipal manager or his/her nominee in terms of the municipality's credit control and debt collection policy.
- 5.4 If these arrangements are not made, no subsidies will be paid or free services provided, and services may be terminated in terms of the municipality's credit control and debt collection policy.
- 5.5 The relief to indigents may be withdrawn at the discretion of the municipal manager if:
  - 5.5.1 A registered indigent who qualifies for such relief fails to keep to the terms of the policy agreement; or
  - 5.5.2 Any tampering with the installations of the municipality is detected.
- 5.6 If a registered indigent is found to have provided fraudulent information to the municipality in regard to any material condition for registration as an indigent, such person shall immediately be removed from the register of indigents, and shall be liable to repay to the municipality with immediate effect all indigent support received from the date of such fraudulent registration.
- 5.7 Moreover, such person may not again be considered for indigent support for a period extending for 5 (five) years beyond the financial year in which the misdemeanour is detected.
- 5.8 Indigent support will not apply in respect of property owners owning more than one property, whether in or outside the municipal area.

- 5.9 The indigent status of a consumer will be reviewed from time to time, at intervals as determined by Council. This could be done by either physical audit or external verification check (ITC – Credit Bureau). Should the requirements not be met, the subsidy for that consumer will be cancelled.

## **6. REPORTING REQUIREMENTS**

- 6.1 The Municipal Manager or his/her nominee shall report on a monthly basis to the Mayor or Council, as the case may be, for the month concerned and by municipal ward:

6.1.1 The number of households registered as indigents and a brief explanation of any movements in such numbers

6.1.2 A quarterly consolidated report must be submitted, per ward to Council showing:

- (a) Applications received
- (b) Applications approved
- (c) Applications declined
- (d) Indigent defaulters;

6.1.3 The monetary value of the actual subsidies and rebates granted;

6.1.4 The budgeted value of the subsidies and rebates concerned; and

6.1.5 The above information cumulatively for the financial year to date.

- 6.2 The Mayor shall submit the above reports on a quarterly basis to the Council and to the municipality's ward committees, or monthly to any ward committees if so requested.

## **7. CRITERIA FOR ACCEPTANCE**

- 7.1 An indigent debtor shall apply for indigent benefits on the prescribed application form and in terms of the laid down procedures of Letsemeng Municipality and the applicant shall agree to the following:

- 7.1.1 To appear personally before the designated official with the application form and documentation required for verification purposes.
- 7.1.2 To the valuation by the Municipal Valuer of the residential property for which application is made (applicable if applicant is owner)
- 7.1.3 Annual resubmission by the applicant of the application to the municipality at least before the end of June of each year or on the anniversary of the granting thereof and/or on a date determined by and communicated to the applicant.
- 7.1.4 That the onus shall be on the approved indigent debtor to inform the municipality of any change in his or her status or personal household circumstances within two weeks of the changes.
- 7.1.5 Failure to comply herewith shall result in the debtor's indigent status being revoked.
- 7.2 Letsemeng Municipality or its representative shall have the right to:
  - 7.2.1 Verify the details provided by an applicant for indigent support;
  - 7.2.2 Undertake house visits by Councillors, Ward Representatives, municipal staff or accredited agents of the municipality to confirm the indigent's claim and living conditions.
  - 7.2.3 Where an indigent debtor is found to be living at a standard inconsistent with his or her indigent application or fails to allow access or provide any further information as may be required by the municipality, such debtor's indigent benefits may be cancelled at 's sole discretion of the Accounting Officer retrospective to the date of approval.
  - 7.2.4 Re-evaluate all indigent households after a period of one year or when deemed necessary.

## **8. Other Matters**



- 8.1 For the purposes of transparency the municipality, shall kept a register of all indigent households at Revenue Section of Budget and Treasury Office containing:
- a) The names of indigent debtors receiving indigent relief for a prescribed period;
  - b) The erf or stand numbers where services are rendered to recipient indigent debtors;
  - c) The total household income of recipient indigent debtors; and
  - d) The number of dependants residing on the property of the recipient indigent debtor;
  - e) The List of above registered indigents is to be displayed on the notice board; for the perusal by Councillors, Ward Committees, officials and members of the community.
- 8.2 Any resident, Councillor, Ward Committee member or official may, in writing, addressed to the Accounting Officer, query the qualification of a recipient indigent debtor within 21 days from the date of tabling at the meeting of the report as stipulated in section 3.3.
- 8.3 The Accounting Officer shall refer queries referred to in 8.2 above to the relevant official for Indigent Support who may take one or more of the following actions:
- a) Request the indigent debtor against whom a query has been raised to provide full proof of his or her or her/her banking account and income details as well as pension registration number;
  - b) Undertake an inspection at the indigent debtor's place of residence to determine his or her or her/her social conditions;
  - c) Request a social welfare worker's report on the indigent debtor's household; and
- 8.4 The official shall recommend to the Accounting Officer for submission to such action as he may deem appropriate in the circumstances including a recommendation:
- a) that the indigent status of the debtor be suspended for a defined period and subject to such conditions as it may determine;

- b) that irregular or excess payments of indigent subsidies be recovered from the indigent debtor by way of debiting such indigent debtor's services and rates account or accounts with such payments;
- c) that normal credit control measures be applied to the indigent debtor in accordance with the 's Credit Control and Debt Collection Policy; and
- d) that criminal charges of theft or fraud be instituted against the indigent debtor.
- e) that the Accounting Officer must, in writing, advise a complainant who lodges a query against an indigent debtor in terms of 8.2 above of this or her or her Policy of the result of the investigation.
- f) That the indigent status of a debtor cannot be withdrawn, suspended or altered until and unless such debtor has been given an opportunity to be heard and make representations on the allegations against him or her

# LETSEMENG LOCAL MUNICIPALITY



## PROPERTY RATES POLICY

## 1. DEFINITIONS

(1) In this Policy, any word or expression to which a meaning has been assigned in the Act bears that meaning and, unless the context otherwise indicates –

**“accommodation establishment”** means a facility that provides for lettable accommodation on a regular basis;

**“agent”**, in relation to the owner of a property, means a person appointed by the owner of the property-

(a) to receive rental or other payments in respect of the property on behalf of the owner; or

(b) to make payments in respect of the property on behalf of the owner;

**“agricultural purposes”**, in relation to the use of a property, means bona fide farming purposes, but excluding use of the property for eco-tourism or for the trading in or hunting of game, and "agriculture" shall have a corresponding meaning;

**“agricultural rebate”**, a rebate granted in respect of agricultural properties which are solely used for agricultural purposes;

**“annually”** means once every financial year;

**“Bona fide agricultural/ farming purposes”** means farming/agricultural land or property:

(i) zoned as agricultural/farming and used predominantly for bona fide farming purposes, excluding property used for purposes of eco-tourism or a game farm; and

(ii) the owner of which is taxed by the South African Revenue Services as a farmer;

**“business”**, in relation to property, means the use of property for the activity of buying, selling or trading in commodities or services on or from a property and includes any office or other accommodation on the property, the use of which is incidental to such activity, but does not include the business of agriculture,

farming, or any other activity consisting of the cultivation of soils, the gathering in of crops, the rearing of livestock and the like;

**“category”** –

(a) in relation to property, means a category of property determined in terms of section 8 of the Act; and

(b) in relation to owners of property, means a category of owners determined in terms of section 15(2) of the Act;

**“Certificate of Occupancy”** means the certificate of occupancy issued by the Council in terms of section 14 of the National Building Regulations and Building Standards Act 103 of 1977;

**“effective date”**–

(a) in relation to a valuation roll, means the date on which the valuation roll takes effect in terms of section 32(1) of the Act; or

(b) in relation to a supplementary valuation roll, means the date on which a supplementary valuation roll takes effect in terms of section 78(2)(b) of the Act;

**“exclusion”**, in relation to the municipality’s rating power, means a restriction of that power as provided for in section 17 of the Act;

**“exemption”**, in relation to the payment of a rate, means an exemption granted in terms of section 15 of the Act;

**“financial year”** with reference to the municipality means the period starting from 1 July in a year to 30 June of the next year and “year” shall have a corresponding meaning;

**“illegal use”**, means the use of a property in a manner that is inconsistent with or in contravention of the permitted use of the property;

**“impermissible rates”** means rates that are impermissible in terms of section 17 of the Act;

**“improvement”**, means any building or structure on or under a property, but excluding anything that may not be taken into account in determining the market value of a property;

**“income Tax Act”**, means the Income Tax Act, 1962 (Act No 58 of 1962);

**“indigent person”**, means a person described as such in the municipality's Indigent Support Policy or registered as indigent in the indigent register of the municipality;

**“industrial”**, in relation to property, means the use of a property for a branch of trade or manufacturing, production, assembly or processing of finished or partially finished products from raw materials or fabricated parts on such a large scale that capital and labour are significantly involved, including any office or other accommodation on the property, the use of which is incidental the use of such factory;

**“land reform beneficiary”**, in relation to a property, means a person who-

- (a) acquired the property through-
  - (i) the Provision of Land and Assistance Act, 1993 (Act No 126 of 1993);  
or
  - (ii) the Restitution of Land Rights Act, 1994 (Act No 22 of 1994);
- (b) holds the property subject to the Communal Property Associations Act, 1996 (Act No 28 of 1996); or
- (c) holds or acquires the property in terms of such other land tenure reform legislation as may pursuant to section 25(6) and (7) of the Constitution be enacted after this Act has taken effect;

**“land tenure right”**, means an old order right or a new order right as defined in section 1 of the Communal Land Rights Act, 2004 (Act No 11 of 2004);

**“local community”**, in relation to a municipality—

- (a) means that body of persons comprising —
- (i) the residents of the municipality;
  - (ii) the ratepayers of the municipality;
  - (iii) any civic organisations and non-governmental, private sector or labour organisations or bodies which are involved in local affairs within the municipality; and
  - (iv) visitors and other people residing outside the municipality who, because of their presence in the municipality, make use of services or facilities provided by the municipality;
- (b) includes, more specifically, the poor and other disadvantaged sections of such body of persons;

**“market value”**, in relation to a property, means the value of the property determined in accordance with section 46 of the Act;

**“multiple purposes”**, in relation to property, means the use of a property for more than one purpose, and

**“mixed use”** shall have a corresponding meaning;

**“municipal council” or “council”** means the municipal Council of Letsemeng Local Municipality;

**“municipality”** means when referred thereto as—

(a) an entity, Letsemeng Local Municipality as a municipality described in Section 2 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000), including a duly authorized official of Letsemeng Municipality; and

(b) a geographical area, the area of jurisdiction of Letsemeng Local Municipality as determined in terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998), and **“ Letsemeng Local Municipality”** shall have a corresponding meaning;

**“municipal manager”** means the person appointed as such in terms of section 82 of the Municipal Structures Act in respect of Letsemeng Municipality;

**“Municipal Finance Management Act”**, means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003);

**"municipal properties"** means properties –

- (a) registered in the name of the municipality in a deeds registry;
- (b) publicly controlled by the municipality; or
- (c) registered in the name of the municipality at any time at the election of the Municipality due to an entitlement thereto, but excluding property held or controlled by the Municipality in a fiduciary or similar capacity, transferable to a third party at the election of such third party;

**"Municipal Structures Act"**, means the Local Government: Municipal Structures Act, 1998 (Act No 117 of 1998);

**"Municipal Systems Act"**, means the Local Government: Municipal Systems Act, 2000 (Act No 32 of 2000);

**"municipal valuer" or "valuer of the municipality"**, means a person designated as a municipal valuer in terms of section 33(1) of the Act;

**"newly rateable property"** means any rateable property on which property rates were not levied before the end of the financial year preceding the date on which the Act took effect, excluding a property which was incorrectly omitted from a valuation roll and for that reason was not rated before that date and any other property identified as such in terms of the Act;

**"occupier"**, in relation to a property, means a person in actual occupation of a property whether or not that person has a right to occupy the property;

**"owner"—**

- (a) in relation to property referred to in paragraph (a) of the definition of "property", means a person in whose name ownership of the property is registered;
- (b) in relation to a right referred to in paragraph (b) of the definition of "property", means a person in whose name the right is registered; or



- (c) in relation to a land tenure right referred to in paragraph (c) of the definition of "property", means a person in whose name the right is registered or to whom it was granted in terms of legislation; or
- (d) in relation to public service infrastructure referred to in paragraph (d) of the definition of "property", means the organ of state which owns or controls that public service infrastructure as envisaged in the definition of "publicly controlled" in terms of the Act,
- (e) provided that a person mentioned below may for the purposes of this Act be regarded by a municipality as the owner of a property in the following cases:
  - (i) A trustee, in the case of a property in a trust excluding state trust land;
  - (ii) an executor or administrator, in the case of a property in a deceased estate;
  - (iii) a trustee or liquidator, in the case of a property in an insolvent estate or in liquidation;
  - (iv) a judicial manager, in the case of a property in the estate of a person under judicial management;
  - (v) a curator, in the case of a property in the estate of a person under curatorship;
  - (vi) a person in whose name a usufruct or other personal servitude is registered in the case of a property that is subject to a usufruct or other personal servitude;
  - (vii) a lessee, in the case of a property that is registered in the name of a municipality and is leased by it; or
  - (viii) a buyer, in the case of a property that was sold and of which possession was given to the buyer pending registration of ownership in the name of the buyer;

**"permitted use"**, in relation to a property, means the limited purposes for which the property may be used in terms of –

(a) any restrictions imposed by –

- (i) a condition of title;
- (ii) a provision of a town planning or land use scheme; or
- (iii) any legislation applicable to any specific property or properties; or a servitude;

(b) any alleviation of any such restrictions;

**“person”**, includes an organ of state;

**“prescribe”**, means prescribe by regulation in terms of section 83 of the Act;

**“private open space”** means any land which is in private ownership used primarily as a private site for play, rest or recreation without financial gain;

**“property”** means—

- (a) immovable property registered in the name of a person, including, in the case of a sectional title scheme, a sectional title unit registered in the name of a person;
- (b) a right registered against immovable property in the name of a person, excluding a mortgage bond registered against the property;
- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation; or
- (d) public service infrastructure;

**“property register”** means a register of properties referred to in section 23 of the Act;

**“protected area”** means an area that is or has to be listed in the register referred to in section 10 of the National Environmental Management: Protected Areas Act, 2003 (Act No 57 of 2003);

**“public benefit organisations”** means organisations approved in terms of section 30(3) of the Income Tax Act;

**“public open space”** means land owned by the municipality, which is not leased on a long term basis, and which is set aside for the public as open area;

**“public service infrastructure”** means publicly controlled infrastructure of the following kinds:

- (a) national, provincial or other public roads on which goods, services of labour move across a municipal boundary;
- (b) water or sewer pipes, ducts or other conduits, dams and water supply reservoirs, water treatment plants or water pumps forming part of a water or sewer scheme serving the public;
- (c) power stations, power substations or power lines forming part of an electricity scheme serving the public;
- (d) gas or liquid fuel plants or refineries or pipelines for gas or liquid fuels forming part of a scheme for transporting such fuels;
- (e) railway lines forming part of a national railway system;
- (f) communication towers, masts, exchanges or lines forming part of a communication system serving the public;
- (g) runways or aprons at national or provincial airports;
- (h) breakwaters, sea walls, channels, basins, quay walls, jetties, roads, railway or infrastructure used for the provision of water, lights, power, sewerage or similar services of ports, or navigational aids comprising any device or system used to assist the safe and efficient navigation of vessels;
- (i) any other publicly controlled infrastructure as may be prescribed; or
- (j) a right registered against immovable property in connection with infrastructure mentioned in paragraphs (a) to (i).

**“rate”** means a municipal rate on property envisaged in section 229(1)(a) of the Constitution of the Republic of South Africa, 1996 (Act No 108 of 1996);

**“ratepayer”** means a person who is liable, in terms of the Act, for the payment of rates on property levied by the municipality;

**“rateable property”** means property on which the municipality may in terms of section 2 of the Act levy a rate, excluding property fully excluded from the levying of rates in terms of section 17 of the Act;

**“rebate”**, in relation to a rate payable on a property, means a discount on the amount of the rate payable on the property;

**“reduction”**, in relation to a rate payable on a property, means the lowering of the amount for which the property was valued and the rating of the property at that lower amount;

**“residential”**, in relation to property, means a property having a suite of rooms which forms a living unit that is exclusively used for human habitation purposes or a multiple number of such units, but does not include a hotel, commune, accommodation establishment, guesthouse, boarding or lodging undertaking, hostel or suchlike properties;

**“residential property”** means a property included in a valuation roll in terms of section 48(2)(b) of the Act as residential;

**“Sectional Titles Act”**, means the Sectional Titles Act, 1986 (Act No 95 of 1986);

**“sectional title scheme”**, means a scheme defined in section 1 of the Sectional Titles Act;

**“sectional title unit”**, means a unit defined in section 1 of the Sectional Titles Act;

**“specified public benefit activity”** means an activity listed in item 1 (welfare and humanitarian), item 2 (health care), item 3 (land and housing), item 4 (education and development), item 6 (cultural), item 7 (conservation, environment and animal welfare) and item 9 (sport) of Part I of the Ninth Schedule to the Income Tax Act;

**“state-owned properties”** means properties owned by the State, which are not included in the definition of public service infrastructure in the Act;

**“the Act”** means the Local Government : Municipal Property Rates Act, 2004 (Act No. 6 of 2004);

**“unimproved property”** means property on which no immovable improvements have been erected : Provided that improvements for the supply of water, electricity, sewer and suchlike services to the property and negligible improvements shall be disregarded for purposes of determining whether or not property is unimproved;

**“urban conservation area”** means an area defined in the relevant Zoning Scheme Regulations as a “Conservation Area”, the aim of which is to retain the unique character or the aesthetical sensitive areas of the Letsemeng Municipality by the control of building design and building lines in the case of new buildings or even not built upon and also in the case of existing buildings to be replaced, altered or extended.

**“Letsemeng Poverty Index”** means the poverty index determined by Council from time to time which index identifies levels of financial need in terms of the Letsemeng’s Expanded Social Package;

**“Current monthly rates”** means the rate levied on a property in the month immediately preceding the month in which application for a rebate is made, if such application is required in terms of this Policy, and in all other events, the month preceding the month in which the rebate will come into operation;

**“Municipal property”** means property owned, vested or under the control and management of the Council or it’s service provider in terms of any applicable legislation;

**“Regulation”** means a regulation promulgated in terms of the Local Government Municipal Property Rates Act 6, of 2004.

**“School”** means a school as defined in the South African Schools Act 84 of 1996;

**“Sectional Titles Act”** means the Sectional Titles Act 95 of 1986;

**“Service provider”** means a natural or juristic person appointed by council to carry out a specific function on behalf of council:

**“State social security grant”** means any social assistance granted in terms of the Social Assistance Act 59 of 1992;

**“The/this Policy”** means the Property Rates Policy adopted by the Council in terms of Section 3(1) of the Act;

**“Threshold”** means the amount, determined from time to time by the Council during its annual budget process referred to in section 12(2) of the Act, to be deducted from the market value of residential properties, resulting in rates to be determined on the balance of the market value of such properties only;

**“Town Planning Scheme”** means a town planning scheme, which is in operation as contemplated in the Town Planning and Townships Ordinance 25 of 1965 and the Town Planning and Townships Ordinance 15 of 1986; and any scheme or document which in terms of any applicable legislation is legally in operation and records or sets out, by means of maps, schedules or any other document, the development rights specifying the purpose for which land may lawfully be used or any buildings may be erected, or both;

**“Zoning”** means the purpose for which land may lawfully be used or on which buildings may be erected or used, or both, as contained in any applicable Town Planning Scheme and “zoned” has a corresponding meaning.

(2) Any word or expression –

(a) imparting any gender or the neuter includes both genders and the neuter, or

(b) imparting the singular only also includes the plural and vice versa, unless the context otherwise indicates.

## **2. INTRODUCTION**

2.1 Section 3(1) of the Local Government: Municipal Property Rates Act, 2004 (Act No 6 of 2004), and section 62(1)(f)(ii) of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003), provide that a municipality must adopt and implement a policy on the levying of rates on rateable property.

2.2 The municipality must levy rates in accordance with the Local Government: Municipal Property Rates Act, 2004 (Act No 6 of 2004), the by-laws and the rates policy adopted by the municipal council. This document sets out the policy of the Letsemeng Local Municipality on the levying of rates on rateable property in the municipality.

2.3 The rates policy must be reviewed annually in compliance with section 5(1) of the Local Government: Municipal Property Rates Act, 2004 (Act No 6 of

2004) and according to the time schedule tabled by the Mayor in accordance with section 21(1)(b) of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).

- 2.4 Any changes to the rates policy must be approved together with the annual budget in compliance with Section 24 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).

### **3. OBJECTIVES**

- 3.1 The objectives of this policy are to ensure that-

- a. all ratepayers within a specific category are treated equally and reasonably;
- b. rates are levied in accordance with the market value of the property;
- c. the rate will be based on the value of all rateable property and the amount required by the municipality to balance the operational budget, taking into account any surpluses generated from municipal services and the amounts required to finance exemptions, reductions and rebates that the municipality may approve from time to time; and
- d. to optimally safeguard the income base of the municipality only by approving exemptions, reductions and rebates that are reasonable and affordable.

### **4. PURPOSE OF THE POLICY**

- 4.1 The purposes of the policy are:-

- (a) to comply with the provisions section 3 of the Act;
- (b) to determine criteria to be applied for-
  - (i) the levying of differential rates for different categories of properties;
  - (ii) exemptions;
  - (iii) reductions and rebates; and
  - (iv) rate increases;

- (c) to determine or provide criteria for the determination of –
  - (i) categories of properties for the purpose of levying different rates; and
  - (ii) categories of owners of properties for categories of properties, for the purpose for the granting of exemptions, rebates and reductions;
- (d) to determine how the municipality's powers must be exercised in relation to multi-purpose properties;
- (e) to identify and quantify to the municipality in terms of cost and benefit to the community-
  - (i) exemptions, rebates and reductions;
  - (ii) exclusions; and
  - (iii) rates on properties that must be phased in;
- (f) to take into account the effect of rates on the poor;
- (g) to take into account the effect of rates on organisations conducting public benefit activities;
- (h) to take into account the effect of rates on public service infrastructure;
- (i) to determine measures to promote local economic and social development; and
- (j) to identify all rateable property that is not rated.

## **5. POLICY PRINCIPLES**

- 5.1 The municipality subscribes to the principle of an equitable property rates dispensation within its area of jurisdiction. Each ratepayer must be taxed fairly relative to other ratepayers. Ratepayers in similar circumstances will pay similar rates.



5.2 The municipality accepts that:

- (a) the effect of rates on the poor has to be taken into account and appropriate measures to alleviate the rates burden on them are necessary;
- (b) the effect of rates on public benefit organisations have to be taken into account;
- (c) the effect of rates on public service infrastructure has to be taken into account;
- (d) measures have to be taken to promote local, social and economic development within the area of jurisdiction of the municipality;
- (e) all deviations from a uniform rate in respect of all categories of owners of properties must be fair and equitable.

5.3 In considering affordability, the total municipal services account and not only the rates account will be considered. The municipality will not increase the property rates by more than what may from time to time be reasonably necessary.

## **6. IMPOSITION OF RATES**

6.1 The council shall, in imposing the rates for each financial year, take cognisance of the aggregate burden of rates and service charges on property owners in the various categories of property ownership and of the extent to which this burden is or remains competitive with the comparable burden in other municipalities within the local economic region.

6.2 The council pledges itself to limit each annual increase as far as practicable to the increase in the consumer price index over the period preceding the financial year to which the increase relates, except when the approved integrated development plan of the municipality provides for a greater increase.

6.3 The council shall as part of each annual operating budget component impose a rate in the rand on the market value of all rateable property as recorded in the municipality's valuation roll and supplementary valuation

roll. Rateable property shall include any rights registered against such property, with the exception of a mortgage bond.

## **7. CATEGORIES OF PROPERTY**

7.1 Properties will be categorised as follows

- (a) Residential properties.
- (b) Industrial properties.
- (c) Business properties. (includes all kinds of businesses unless another category is more appropriate).
- (d) Accommodation establishments.
- (e) Agriculture properties used for-
  - (i) agricultural purposes;
  - (ii) business purposes;
  - (iii) residential purposes;
  - (iv) eco-tourism or conservation;
  - (v) trading in or hunting of game.
- (f) Farm properties not used for any identified purpose ;
- (g) State-owned properties used to –
  - (i) provide local services;
  - (ii) provide provincial / national services.
- (h) Municipal properties.
- (i) Public service infrastructure.
- (j) Public open spaces.
- (k) Private open spaces.
- (l) Formal and informal settlements.

(m) Communal land as defined in the Communal Land Rights Act, 2004 (Act No 11 of 2004).

(n) State trust land.

(o) Properties-

(i) acquired through the Provision of Land and Assistance Act, 1993 (Act No 126 of 1993) or the Restitution of Land Rights Act, 1994 (Act No 22 of 1994); or

(ii) subject to the Communal Property Associations Act, 1996 (Act No 28 of 1996).

(p) Protected areas.

(q) Properties on which national monuments are proclaimed.

(r) Properties owned by public benefit organisations used for public benefit activities in terms of the Ninth Schedule to the Income Tax Act.

(s) Properties used for multiple purposes.

(t) Urban conservation areas.

(u) Developed non-urban land.

(v) Unimproved properties.

7.2 For all agricultural properties with mixed use, allocations shall be used to allocate the market value to the different portions and to rate the portions accordingly.

7.3 Agricultural properties that are not used for bona fide farming, but are predominantly used as residential properties will be categorised as "residential", provided that they meet the definition of a residential property as described in this policy.

7.4 Farms used predominantly for commercial or industrial purposes (such as truck depots, construction yards or factories) shall not qualify for any rebates or reductions.

7.5 Should any doubt arise regarding the category to which a particular property or group of properties belong, the Council or a person or persons designated by the Council shall, after having considered representations by the person or persons having a direct interest in the property or properties,

determine the category to which the property or properties concerned belong.

## **8. CATEGORIES OF OWNERS**

8.1 For the purpose of this policy and in terms of section 15(2) of the Act the following categories of owners will be recognised:

- (a) indigent owners;
- (b) owners dependent on pensions or social grants for their livelihood;
- (c) owners of property situated within an area affected by-
  - (i) a disaster within the meaning of the Disaster Management Act, 2002 (Act No 57 of 2002);
  - (ii) any other serious adverse social or economic conditions;
- (d) owners of residential properties with a market value lower than an amount determined by the municipality; or
- (e) owners of agricultural properties who are *bona fide* farmers.

## **9. LIABILITY FOR RATES**

9.1 **Method and time of payment:** The municipality will recover the rate levied in periodic instalments of equal amounts in twelve months. The instalment is payable on or before the 15<sup>th</sup> day of every month in accordance with the municipality's monthly accounts.

9.2 **Annual Payment Arrangements:** By prior arrangement with the municipality the rate may be paid in a single amount before 30 September of the year in which it is levied, however, application must be submitted before 30<sup>th</sup> June for this option. Any application thereafter will only be considered by the municipality's Chief Financial Officer on good cause shown.

- 9.3 **Recovery of rates in arrears from tenants and occupiers:** If an amount due for rates levied in respect of a property is unpaid after the day determined, the municipality may recover the amount in whole or in part from a tenant or occupier of the property. The amount the municipality may recover from the tenant or occupier of the property is limited to the amount of the rent or other money due and payable by the tenant or occupier to the owner of the property. Any amount the municipality recovers from the tenant or occupier of the property may be set off by the tenant or occupier, against any money owed by the tenant or occupier to the owner.
- 9.4 **Recovery of rates in arrears from agents:** The municipality may recover the amount due for rates from an agent of the owner after it has given written notice to that agent. The amount the municipality may recover from the agent is limited to the amount of any rent or other money received by the agent on behalf of the owner, less the commission due to that agent. The agent must, on request by the municipality, furnish the municipality with a written statement specifying all payments for rent on the property received by that agent during a period determined by the municipality.
- 9.5 **Interim Valuation Debits:** In the event that a property has been transferred to a new owner and an interim valuation took place, the previous owner shall be liable for the additional rates payable up to the transfer date irrespective of the issuing by the municipality of a rates clearance certificate in terms of section 118 of the Municipal Systems Act.
- 9.6 **Ownership:** Properties which are to be transferred to or which will vest in the Municipality arising from developments, i.e. open spaces and roads, shall be transferred to the municipality at the cost of the developer. Until such time, rates levied will be for the account of the developer.
- 9.7 **Rates Clearance Certificate:** Rates clearance certificates for property transfer purposes will only be valid until 30<sup>th</sup> June if the rates have been paid in full up to that date. No extension of the period of validity of a rates clearance certificate will exceed 60 days beyond 30 June: Provided that no extension will in any event be granted in respect of a period after 30<sup>th</sup> June if the new financial year's rates have not been paid in full : Provided further that no such extension will affect the provisions of subparagraph 8.5 above.
- 9.8 **Interest:** Interest at 2% the prime interest rate charged by the municipality's principal bank from time to time shall be payable on all amounts outstanding.

## 10. DIFFERENTIAL RATES

- 10.1 Different categories of properties may pay different rates in the rand based on the market value of the properties.

**11. EXEMPTIONS, REBATES AND REDUCTIONS ON RATES AND PHASING-IN OF CERTAIN RATES**

- 11.1 In imposing the rate in cent in the rand for each annual operating budget component, the municipality shall grant the exemptions, rebates and reductions provided for in this policy to the categories of properties and categories of owners indicated, but the municipality reserves the right to amend these exemptions, rebates and reductions if the circumstances of a particular annual budget so dictate.

- 11.2 In determining whether a property forms part of a particular category indicated, the municipality shall have regard to the actual use to which the relevant property is put. In the case of unimproved land not specifically included in any of the categories indicated, the permitted use of the property shall determine into which category it falls.

- 11.3 Municipal properties shall include properties owned by municipal entities as defined in the Municipal Systems Act.

- 11.4 The municipality grants rebates in recognition of the following factors:

(a) The inability of residential property owners to pass on the burden of rates, as opposed to the ability of the owners of business, commercial and industrial properties and certain other properties to recover such rates as part of the expenses associated with the goods or services which they produce.

(b) The need to accommodate indigent persons and owners within the categories of income determined by the council.

(c) The services provided to the community by public service organizations.

(d) The value of agricultural activities to the local economy coupled with the limited municipal services extended to such activities, but also taking into account the municipal services provided to municipal residents who are employed in such activities.

(e) The need to preserve the cultural heritage of the local community.

(f) The need to encourage the expansion of public service infrastructure.

(g) The indispensable contribution which property developers (especially in regard to commercial and industrial property development) make towards local economic development, and the continuing need to encourage such development.

(h) The requirements of the Act.

11.5 The municipal manager shall ensure that the revenues forgone in respect of the rebates and reductions and amounts attributable to impermissible rates as contemplated in section 17 of the Act, are appropriately disclosed in each annual operating budget component and in the annual financial statements and annual report, and that the relevant rebates, reductions and impermissible amounts are also clearly indicated on the rates accounts submitted to each property owner.

11.6 The municipality reserves the right to inspect properties before or after granting rebates, reduction or other relief. No further rebates, reduction or other relief, will be granted to properties that qualify for the agricultural rebate.

11.7 Any rebate granted based on false information supplied by the applicant, will result in the reversal of all the rebates granted and recovery from the applicant and/or the owner(s) of the property. Further actions may also be taken against the person(s) who supplied the false information.

11.8 Should an illegal use occur in respect of property or any part thereof, such property or the rate payer concerned shall not qualify for any rebate or reduction that may otherwise be applicable to such property or person.

## **12. EXEMPTIONS**

### **Categories of properties**

12.1 Rates will not be levied on property exempted from payment of rates in terms of an Act other than the Local Government: Municipal Property Rates Act, No 6 of 2004.

12.2 All residential properties with a market value up to and including an amount determined by the Council from time to time shall be exempted from paying rates. This is an important part of the Council's indigent policy and is aimed primarily at alleviating poverty.

12.3 Exemptions will be subject to the following conditions:

- (a) all applications must be addressed in writing to the municipality;
- (b) to the extent to which the application is based on compliance with a statute or statutory exemption, the application must be supported by the necessary certificate(s) or other appropriate supporting documents;
- (c) applications must reach the municipality before 30<sup>th</sup> June preceding the start of the new municipal financial year for which relief is sought;
- (d) the municipality retains the right to refuse exemptions if the details supplied in the application form are incomplete, incorrect or false;
- (e) all applications are subject to approval.

12.4 To the extent to which the levying of rates on certain properties are impermissible in terms of section 17 of the Act and this policy provides for a rebate in respect of such a property, the rebate shall be deemed to be included in the relief afforded by section 17 and shall not be allowed in addition thereto.

### **13. REBATES**

13.1 Rebates may be granted in respect of the following categories of owners of properties or categories of properties provided that the criteria pertaining to the category are met:

- (a) Income categories:
  - (i) Must be the registered owner of the property;
  - (ii) Must reside on the property;



- (iii) Income must not exceed an amount annually set by the Council;  
and
  - (iv) Applications for the rebate must be submitted before 30<sup>th</sup> June :  
Provided that late applications may on good cause shown be  
considered by the Municipality's Chief Financial Officer.
- (b) Public benefit activities :
  - (i) The rateable property must be registered in the name of the  
public benefit organisation as defined in section 30(1) of the  
Income Tax Act.
  - (ii) The public benefit organisation must be approved by the  
Commissioner in terms of section 30(3) of the Income Tax Act.
  - (iii) The public benefit organisation must, to the satisfaction of the  
Municipality carry on a specified public benefit activity.
- (c) Rateable property registered in the name of an institution or  
organisation which, in the opinion of the Municipality, performs  
charitable work and is exempted from normal tax in terms of section  
10 of the Income Tax Act;
- (d) State-owned properties
- (e) Residential properties
- (f) Public service infrastructure

13.2 Retired and disabled persons qualify for special rebates according to  
monthly household income. To qualify for the rebate a property owner  
must –

- (a) occupy the property as his/her normal residence provided that where  
the owner is unable to occupy the property due to no fault of his/her  
own, the requirement may be satisfied if the property is occupied by  
the person's spouse or minor children: Provided that a person who  
occupies a property in his/her capacity as a usufructuary or the  
holder of a registered personal servitude shall likewise qualify;
- (b) furnish proof of his total monthly income from all sources (including  
that of his/her spouse;

- (c) not be the owner of more than one property.

13.3 Rebates for agricultural properties will be granted subject to -

- (a) proof that the owner of the property is taxed by SARS as a farmer in respect of the property;
- (b) proof to the municipality's satisfaction that the owner complies with the criteria in question.

13.4 Notwithstanding any other provisions of this policy owners of properties who wish to qualify for a rebate or reduction in terms of this policy must –

- (a) if the claim is based on income, furnish the municipality with a sworn affidavit of his or her income together with supporting evidence to the satisfaction of the municipality;
- (b) if the claim is based on ownership of a property, proof of such ownership;
- (c) must see to it that the application reaches the municipality before 30<sup>th</sup> June preceding the start of the new municipal financial year for which relief is sought.

13.5 The municipality retains the right to refuse rebates, reductions or exemptions if the details supplied in the application form are incomplete, incorrect or false.

13.6 Properties used for multiple purposes, other than those referred to under residential properties, shall be rated on the value assigned to each component, and shall receive the rebate applicable to such component. Where one component on average represents 90% or more of the property's actual use, such property shall be rated as though it were used for that use only.

13.7 For the avoidance of doubt it is stated that should a business property for example also contain a residential component (other than sectional title units) the residential component and the business component shall be rated separately and the residential component shall qualify for the rebate for

residential properties (irrespective, however, of the number of such residential units).

13.8 In imposing the rate in the rand for each annual operating budget component, the council shall grant the following exemptions, rebates and reductions to the categories of properties and categories of owners indicated below, but the council reserves the right to amend these exemptions, rebates and reductions if the circumstances of a particular annual budget so dictate.

13.9 In determining whether a property forms part of a particular category indicated below, the municipality shall have regard to the actual use to which the relevant property is put. In the case of vacant land not specifically included in any of the categories indicated below, the permitted use of the property shall determine into which category it falls.

\* Residential properties or properties of any category used for multiple purposes where the residential component represents on average 90% or more of the property's actual use

	Domestic	2%
*	Industrial properties	NONE
*	Business and commercial properties	NONE
*	Farm properties: residential component	50%
*	Farm properties: business and commercial component	NONE
*	Farm properties: agricultural component	50%
*	Farm properties: used for no purpose	NONE
*	Smallholdings: residential component	50%
*	Smallholdings: business and commercial component	NONE
*	Smallholdings: industrial component	NONE

*	Smallholdings: agricultural component	50%
*	State-owned properties: residential	30%
*	State-owned properties: public service infrastructure	30%
*	State-owned properties: other	NONE
*	Formal and informal settlements: all properties with a rateable value of up to R30 000	NONE
*	Formal and informal settlements: all properties with a rateable value of R30 000 or more	NONE
*	State trust land	30%
*	Protected areas	100%
*	Properties on which national monuments are situated, and where no business or commercial activities are conducted in respect of such monuments	100%
*	Properties on which national monuments are situated, but where business or commercial activities are conducted in respect of such monuments	30%
*	Properties owned by public benefit organisations and used to further the objectives of such organisations	100%
*	Properties belonging to a land reform beneficiary or his or her heirs for the first 10 years after the registration of the title in the office of the Registrar of Deeds	100%
*	Property registered in the name of and used primarily	100%

as a place of worship by a religious community,  
including an official residence

- 13.10 In addition to the foregoing, the first R15 000 of the market value of all residential properties and of all properties used for multiple purposes, provided one or more components of such properties are used for residential purposes, is exempt from the payment of rates in terms of Section 17(1)(h) of the Property Rates Act, and the first R30 000 of the market value of all residential properties belonging to indigent consumers is exempt from the payment of rates.
- 13.11 Properties used for multiple purposes, other than those referred to under residential properties above, shall be rated on the value assigned to each component, and shall receive the rebate applicable to such component. Where one component on average represents 90% or more of the property's actual use, such property shall be rated as though it were used for that use only.
- 13.12 No other rebates will be granted to properties that qualify for the agricultural rebate. For the avoidance of doubt it is provided that properties that qualify for the agricultural rebate will not be entitled to the residential rate rebate.
- 13.13 The following categories of owners of properties shall additionally receive the following rebates on the rates due in respect of such properties after deducting the rebate to residential properties where applicable:

CATEGORY OF PROPERTY OWNERS	REBATE
Residential property owners who are both the permanent occupants and the sole owners of the property concerned and who are registered indigents in terms of the municipality's indigence management policy.	100% of the rates based on the rateable value up to the amount referred to in 9.1(2).

## 14. REDUCTIONS

- 14.1 A reduction in the municipal valuation as contemplated in section 15(1)(b) of the Act will be granted where the value of a property is affected by fire damage, demolition, floods, earthquake or a natural disaster.

- 14.2 The reduction will be based on the certificate issued for this purpose by the municipal valuator.

## **15. PHASING-IN OF CERTAIN RATES**

- 15.1 Unless otherwise decided by the Council from time to time and subject to any other provisions hereof, the property owners who qualify for phasing-in discounts in terms of Section 21 of the Act shall be granted the minimum discounts provided for in Section 21 : Provided that such discounts shall not be allowed in addition to any rebates or reductions otherwise provided for in this policy in respect of the categories of properties concerned.

## **16. RATE INCREASES**

- 16.1 The municipality will consider increasing rates annually during the budget process.
- 16.2 All increases in the property rates will be communicated to the local community in terms of the municipality's policy and practices on community participation.

## **17. MULTI PURPOSE PROPERTIES**

- 17.1 Properties used for multiple purposes will for rates purposes be assigned to a category for properties used for multiple purposes as contemplated in section 8(2)(r) of the Act. Rates will be levied:
- (a) by apportioning the market value of a property to the different purposes for which the property is used; and
  - (b) applying the relevant cent in the rand to the corresponding apportioned market value.
- 17.2 Those parts of a special nature reserve, national park or nature reserve within the meaning of the National Environmental Management : Protected Areas Act, 2003 (Act No 57 of 2003), or of a national botanical garden within the meaning of the National Environmental Management : Biodiversity Act, 2004 (Act No 10 of 2004), developed or used for

commercial, business, agricultural or residential purposes will be allocated the market value of any such portion for rates purposes.

## **18. COSTS OF EXEMPTIONS, REBATES, REDUCTIONS, AND PHASING IN OF RATES**

18.1 During the budget process the Municipality's Chief Financial Officer shall inform the Council of all the costs associated with the proposed exemptions, rebates, reductions and phasing-in of rates.

18.2 Provisions shall be made on the operating budget for –

- (a) the full potential income associated with property rates; and
- (b) the full costs associated with exemptions, rebates, reductions, phasing-in of rates.

## **19. LOCAL, SOCIAL AND ECONOMIC DEVELOPMENT**

19.1 The municipality may grant rebates to organisations that promote local, social and economic development in its area of jurisdiction. The following criteria will apply in determining the extent of any such rebates:

- (a) job creation in the municipal area;
- (b) social upliftment of the local community; and
- (c) creation of infrastructure for the benefit of the community.

19.2 Rebates will be restricted to such amount(s) or percentage(s) of the rates payable as determined by the municipality and shall be phased out within the period determined by the municipality.

19.3 Rebates will be granted on application subject to-

- (a) a business plan issued by the management of the organisation indicating how the local, social and economic development objectives of the municipality are going to be met;

- (b) a continuation plan issued by the management and certified by its auditors stating that the objectives have been met in the first year after establishment and how the organisation plans to continue to meet the objectives;
- (c) an assessment by the municipal manager indicating that the organisation qualifies.

## **20. REGISTER OF PROPERTIES**

- 20.1 The Chief Financial Officer must draw up and maintain a register of properties situated within the municipality in accordance with the provisions of section 23 of the Act.

## **21. NOTIFICATION OF RATES**

- 21.1 The municipality will give notice of all rates approved at the annual budget meeting in accordance with the provisions of section 14 of the Act.

## **22.1 CORRECTION OF ERRORS AND OMISSIONS**

- 22.1 In the event of any under-recovery of rates on a particular property, whether because of an error or omission on the part of the municipality or false information provided by the property owner concerned or a contravention of the permitted use to which the property concerned may be put, the rates payable shall be appropriately adjusted for the period extending from the date on which the error or omission is detected back to the date on which rates were first levied in terms of the current valuation roll. In addition, where the error occurred because of false information provided by the property owner or as a result of a contravention of the permitted use of the property concerned, interest on the unpaid portion of the adjusted rates payable shall be levied at the maximum rate permitted by prevailing legislation.
- 22.2 In the event of any over-recovery of rates on a particular property, whether because of the rate applied or the valuation, the account concerned shall be rectified for the year in which the mistake is detected and for not more than the two preceding financial years, subject, however, to the provisions of the Institution of Legal Proceeding against Certain Organs of State Act, 2002 (Act No 40 of 2002).



## **23. FREQUENCY OF VALUATIONS**

- 23.1 The Municipality will undertake a general valuation of all rateable properties and prepare a new valuation roll every four years.
- 23.2 Supplementary valuations will be undertaken on an on-going basis and supplementary valuation rolls will be prepared at the intervals determined by the Council from time to time.
- 23.3 Amendments to the valuation roll to reflect changes to the owner, address, category, extent, description or other prescribed particulars will be made annually in accordance with section 79 of the Act, and only the electronic copy of the valuation roll will be updated.

# LETSEMENG LOCAL MUNICIPALITY



## SUPPLY CHAIN MANAGEMENT POLICY

## SECTION 1: TERMINOLOGY

### ABBREVIATIONS

<b>AG</b>	Auditor-General
<b>AO</b>	Accounting Officer – (Municipal Manager)
<b>BBBEE</b>	Broad Based Black Economic Empowerment
<b>BEE</b>	Black Economic Empowerment
<b>CFO</b>	Chief Financial Officer
<b>CIDB</b>	Construction Industry Development Board
<b>DTI</b>	Department of Trade and Industry
<b>HDI</b>	Historically Disadvantaged Individual
<b>IDP</b>	Integrated Development Plan
<b>IT</b>	Information Technology
<b>LCC</b>	Life Cycle Costing
<b>MFMA</b>	Municipal Finance Management Act
<b>MM</b>	Municipal Manager (Accounting Officer)
<b>MSA</b>	Municipal Systems Act
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NIPP</b>	National Industrial Participation Programme
<b>PCCAA</b>	Prevention and Combating of Corrupt Activities Act. 2004
<b>PPP</b>	Public Private Partnership
<b>PPPFA</b>	Preferential Procurement Policy Framework Act (Act 5 of 2000)
<b>RDP</b>	Reconstruction and Development Programme
<b>SAPS</b>	South African Police Services
<b>SARS</b>	South African Revenue Services
<b>SBD</b>	Standard Bidding Documents
<b>SCM</b>	Supply Chain Management
<b>SCM Unit</b>	Supply Chain Management Unit
<b>SITA</b>	State Information Technology Agency
<b>SLA</b>	Service Level Agreement
<b>SMME</b>	Small Medium and Micro Enterprise
<b>SP</b>	Service Provider
<b>TCO</b>	Total Cost of Ownership

<b>TOR</b>	Terms of Reference
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## DEFINITIONS

In this policy, unless the context otherwise indicates, a word or expression to which a meaning has been assigned in the Act has the same meaning as in the Act, and

<b>A-class Items</b>	A-class items are those items that are not consumable or expendable.
<b>Acquisition management</b>	<p>Acquisition management is the process of procurement of goods or services and includes the:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Identification of preferential policy objectives;</li> <li><input type="checkbox"/> Determination of market strategy;</li> <li><input type="checkbox"/> Application of depreciation rates;</li> <li><input type="checkbox"/> Application of total cost of ownership principle;</li> <li><input type="checkbox"/> Compilation of bid documentation, including conditions;</li> <li><input type="checkbox"/> Determination of evaluation criteria;</li> <li><input type="checkbox"/> Evaluation of bids and tabling of recommendations;</li> <li><input type="checkbox"/> Compilation and signing of contract documents;</li> <li><input type="checkbox"/> Contract administration.</li> </ul>
<b>Affordable</b>	<p>Affordable in relation to a PPP agreement, means that the financial obligations to be incurred by a municipality in terms of the agreement can be met by:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Funds designated in the municipality's budget for the current year for the activity outsourced in terms of the agreement;</li> <li><input type="checkbox"/> Funds destined for that activity in accordance with the future budgetary projections of the municipality;</li> <li><input type="checkbox"/> Any allocations of the municipality;</li> <li><input type="checkbox"/> Or a combination of such funds and allocations.</li> </ul>
<b>Asset</b>	<p>It is a resource controlled by an entity as a result of past events and from which future economic benefits or service potential is expected to flow to the entity. It has the following characteristics:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> It possesses service potential or future economic benefit that is expected to flow to the entity.</li> <li><input type="checkbox"/> It is controlled by the entity.</li> <li><input type="checkbox"/> It originates as a result of a past transaction or event.</li> </ul>
<b>Buy out</b>	Pay someone to give up an ownership.
<b>Competitive bid</b>	Means a bid in terms of a competitive bidding process.
<b>Competitive bidding</b>	<p>a competitive bidding process for–</p> <p>(i) procurements above a transaction value of R200</p>

<b>process</b>	000 (VAT included); and (ii) the procurement of long term contracts.
<b>Current asset (inventory-perishable goods)</b>	An asset that would, in the normal course of operations, be consumed or converted to cash within 12 months after the last reporting date.
<b>Customer service</b>	It is the process of serving customers in accordance with acceptable, pre-determined standards in such a manner that it increases customer satisfaction and minimises times and costs.
<b>Demand management</b>	Demand management ensures that the resources required to support the strategic objectives are delivered at the correct time, at the right price, location, quantity and quality that will satisfy the needs.

<b>Depreciation</b>	Depreciation refers to the reduction in the value of assets generally from wear and tear. The consumption of capital is recognised as a cost of production and an allowance for this is made before net profit is arrived at.
<b>Disposal management</b>	Disposal management is responsible to ensure that all unserviceable, redundant or obsolete assets are subjected to a formal process of doing away with movable assets in a cost-effective, but transparent and responsible manner. It also entails the maintenance of records and documents as prescribed.
<b>E-class accountable</b>	Accounting in respect of those stores approved by the relevant Treasury as consumables.
<b>E-class items</b>	E-class items are consumable and expendable stores that cannot be repaired when it becomes unusable.
<b>Economic principle</b>	Obtain the highest possible output for the lowest possible use of resources.
<b>Economy of scale</b>	Reductions in the average cost of a product in the long run, resulting from an expanded level of output
<b>Equipment</b>	A-class accountable stores that are issued and accounted for on an inventory.
<b>Final award</b>	In relation to bids or quotations submitted for a contract, means the final decision on which bid or quote to accept.
<b>Formal written price quotation</b>	Means quotations referred to in section 11 of this policy.
<b>Historically</b>	Historically Disadvantaged Individual (HDI) means a South

<b>disadvantaged individual</b>	<p>African citizen who:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Had no franchise in national elections prior to the introduction of the Constitution of the Republic of South Africa, 1983 (Act No 10 of 1983) or the Constitution of the Republic of South Africa, 1993 (Act no 200 of 1993)(“the Interim Constitution”); and/or</li> <li><input type="checkbox"/> Is female and/or</li> <li><input type="checkbox"/> Has a disability.</li> </ul> <p>Provided that a person, who obtained South African citizenship on or after the coming into effect of the Interim Constitution, is deemed not to be an HDI.</p>
<b>Immovable assets</b>	All non-produced, non-financial tangible assets, namely land, subsoil assets, water resources and some fixed tangible assets namely fixed structures (bridges, houses and roads).
<b>Intangible assets</b>	Intangible assets are trademarks, licenses and/or the legally enforceable rights associated with copyright and patents.
<b>Integrated SCM</b>	The foundation of the integrated SCM concept is total cost analysis, which is defined, as minimising the total cost of SCM elements.
<b>In the service of the state</b>	<p>Means to be:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> A member of <ul style="list-style-type: none"> <li>▪ Any municipal council,</li> <li>▪ Any provincial legislature; or</li> <li>▪ The National Assembly or the national Council of Provinces.</li> </ul> </li> <li><input type="checkbox"/> A member of the board of directors of any municipal entity.</li> <li><input type="checkbox"/> An official of any municipality or municipal entity.</li> <li><input type="checkbox"/> An employee of any national or provincial department, national or provincial public entity or constitutional institution within the meaning of the Public Finance Management Act, 1999 (Act No 1 of 1999).</li> <li><input type="checkbox"/> A member of the accounting authority of any national or provincial public entity; or</li> <li><input type="checkbox"/> An employee of Parliament or a provincial legislature.</li> </ul>
<b>Inventories</b>	Including stock and stores (consumable stores, maintenance materials, spare parts, WIP, education/training course materials, client services). Properties/land held for sale. Strategic stocks (fuel supplies, precious stones and metals). Seized or forfeited property.

<b>Inventory (movable)</b>	It shall be possible to determine accountability for all A-class-accountable items at all times. Records shall therefore be
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<b>assets) management</b>	available to describe the full extent of the responsibility of officials for equipment belonging to the institution on personal account or sectional inventories for general usage. Inventory (distribution) ledger accounts shall therefore be maintained for all A-class items.
<b>Items</b>	An individual article or unit.
<b>Lifecycle costing</b>	Lifecycle costing is a technique developed to identify and quantify all costs, initial and ongoing, associated with a project or installation over a given period. Thus, it is a tool that forecasts the total cost of a purchase throughout its predetermined lifecycle.
<b>List of accredited prospective providers</b>	Means a list of accredited prospective providers which a municipality or municipal entity must keep in terms of Section 4 of this policy.
<b>Logistics management</b>	Logistics management ensure that goods and services are available at the right place, time and quantities required to execute the functions of the municipality.
<b>Long term contract</b>	Means a contract with a duration period exceeding one year.
<b>Measurable objectives</b>	Measurable objectives identify very specific things that the municipality intends doing or delivering in order to achieve the strategic objectives and ultimately the strategic goals it has set. There must therefore be a direct causal link running from the measurable objective to one or more of the strategic objectives.
<b>Movable assets</b>	Movable assets are assets that can be moved (e.g. machinery, equipment, vehicles, etc). All inventories and valuables and most fixed assets belong to this category.
<b>Municipal functions</b>	Means: <input type="checkbox"/> A municipal service. <input type="checkbox"/> Any other activity within the legal competence of a municipality.
<b>Municipal property</b>	In relation to a municipality, includes any movable, immovable or intellectual property, owned by or under the control of: <input type="checkbox"/> A municipality; or <input type="checkbox"/> A municipal entity under the sole or shared control of the municipality.
<b>Net present value (NPV)</b>	The sum that results when the discounted value of the expected costs of an investment are deducted from the discounted value of the expected returns. If the NPV is positive the project in question is potentially worth undertaking.



<b>Obsolete</b>	No longer produced or used, out of date, to become obsolete by replacing it with something new.
<b>Official</b>	<p>Official means:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> An employee of a municipality;</li> <li><input type="checkbox"/> A person seconded to a municipality to work as a member of the staff of the municipality;</li> <li><input type="checkbox"/> A person contracted to a municipality to work as a member of the staff of the municipality otherwise than as an employee.</li> </ul>

<b>Operation and maintenance plan</b>	The objective of operation and maintenance plans is to ensure assets remain appropriate to programme requirements, are efficiently utilised, and are maintained in the necessary condition to support programme delivery at the lowest possible long-term cost.
<b>Other applicable legislation</b>	<p>Means any other legislation applicable to municipal supply chain management, including:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> The Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000).</li> <li><input type="checkbox"/> The Broad-Based Black Economic Empowerment Act, 2003 (Act No 53 of 2003).</li> <li><input type="checkbox"/> The Construction Industry Development Board Act, 2000 (Act No 38 of 2000).</li> </ul>
<b>Over-utilisation</b>	Over-utilisation can have adverse affects in terms of deterioration in asset performance and condition, shortening productive life and increasing recurrent operating and maintenance costs.
<b>Practitioner</b>	A person who practises a profession or art.
<b>Private party</b>	<p>In terms of a PPP, excludes:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> A municipality;</li> <li><input type="checkbox"/> A municipal entity; or</li> <li><input type="checkbox"/> An organ of state, including an institution listed in any of the schedules of the Public Finance Management Act, 1999 (Act 1 of 1999).</li> </ul>
<b>Procedures</b>	Policies are carried out by means of more detailed guidelines called "standard methods". A series of actions conducted in a certain order or manner.
<b>Process</b>	A series of actions or steps towards achieving a particular end.
<b>Project management</b>	Project management is the planning, directing and controlling of an organisation's resources over a short term to ensure that specific objectives are successfully met.
<b>Provider</b>	A provider is the private person or institution that provides

	supplies, services or works to the Government.
<b>Public-private partnership</b>	<p>Means a commercial transaction between a municipality and a private party in terms of which the private party:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Performs a municipal function on behalf of a municipality.</li> <li><input type="checkbox"/> Acquires the use of municipal property for its own commercial purposes.</li> <li><input type="checkbox"/> Performs both a municipal function and acquires the use of municipal property as referred to above.</li> <li><input type="checkbox"/> Assumes substantial financial, technical and operational risks in connection with the performance of the municipal function or use of municipal property</li> <li><input type="checkbox"/> Receives a benefit for performing a municipal function or from utilising municipal property, by way of: <ul style="list-style-type: none"> <li>▪ Consideration to be paid by the municipality.</li> <li>▪ Charges or fees to be collected by the private party from users or customers of a service provided to them.</li> <li>▪ A combination of the above.</li> </ul> </li> </ul>
<b>Quittance</b>	The acknowledgement by the recipient of the receipt of issued stores, reflecting a signature, receipt voucher number and date of receipt.
<b>Redundant</b>	No longer needed or useful, superfluous (unnecessary).

<b>SCM Regulations</b>	Means the Local Government: Municipal Finance Management Act, 2003: Municipal Supply Chain Management Regulations.
<b>Renewal</b>	Replace or restore (something broken or worn out).
<b>Risk management</b>	Risk management may be defined as the identification, measurement and economic control of risks that threaten the assets and earnings of a business or other enterprise.
<b>Rules</b>	Rules are statements that a specific action must or must not be taken in a given situation.
<b>Salvage</b>	The Act of saving any goods or property in danger of damage or destruction.
<b>SMME</b>	Means a separate and distinct business entity, including co-operative enterprises and non-governmental organisations, managed by one owner or more which, including its branches or subsidiaries, if any, is predominantly carried on in any sector or sub-sector of the economy and which can be classified as a micro-, a very small, a small or a medium enterprise by satisfying the criteria opposite the smallest relevant size or class.
<b>Sourcing</b>	Find out where to obtain.
<b>Stores/stock</b>	All movable state property/assets that are kept in stock for

	issue purposes.
<b>Strategic goals</b>	Strategic goals are areas of organisational performance that are critical to the achievement of the mission. They are statements that describe the strategic direction of the organisation.
<b>Strategic objectives</b>	Strategic objectives are more concrete and specific than strategic goals. They should give a clear indication of what the municipality intends doing or producing in order to achieve the strategic goals it has set for itself. As such strategic objectives would normally describe high-level outputs or “results” of actions that the municipality intends taking.
<b>Treasury guidelines</b>	Means the guidelines on supply chain management issued by the Minister in terms of section 168 of the Act.
<b>The MFMA</b>	Means the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003).
<b>The Act</b>	” means the Local Government: Municipal Finance Management Act 2003 (Act No. 56 of 2003)
<b>Under-utilisation</b>	Under-utilisation will increase the unit cost of programme delivery and may prompt the purchase of new assets when they are not required.
<b>Value for money</b>	In relation to public-private partnership agreements, means that the performance of a private party in terms of the agreement will result in a net benefit to the municipality in terms of cost, price, quality, quantity, risk transfer or any combination of those factors.
<b>Written verbal quotations</b>	Means quotations referred to in section 11 of this policy.

## **SECTION 2: LEGISLATIVE REQUIREMENTS**

### **1. THE CONSTITUTION**

- 1.1 In establishing a SCM policy document, the organ of state must produce a document that complies with section 217 of the Constitution of the Republic of South Africa, Act No 108 of 1996, as amended, which reads as follows:
- 1.2 "217(1) When an Organ of State in the national, provincial or local sphere of Government, or any other institution identified in national legislation, contracts for goods and services, it must do so in accordance with a system which is fair, equitable, transparent, competitive and cost-effective.
- 1.3 Subsection (1) does not prevent the Organs of State or institutions referred to in the subsection from implementing a procurement policy providing for:
  - 1.3.1 Categories of preference in the allocation of contracts; and
  - 1.3.2 The protection or advancement of persons, or categories of persons, disadvantaged by unfair discrimination.
- 1.4 National legislation must prescribe a framework within which the policy referred to in subsection (2) must be implemented."

### **2. THE MUNICIPAL FINANCE MANAGEMENT ACT**

- 2.1 The Municipal Finance Management Act, Act No 56 of 2003, sets out the responsibilities of the municipality's Accounting Officer and highlights a number of aspects impacting on supply chain management. The main aspects pertaining to supply chain management are as indicated hereunder.
  - 2.1.1 Section 2 stipulates that municipalities must establish norms and standards and other requirements for:
    - 2.1.1.1 Ensuring transparency, accountability and appropriate lines of responsibility.

- 2.1.1.2 The management of their revenues, expenditures, assets and liabilities.
- 2.1.1.3 Supply chain management.
- 2.1.2 Section 14 stipulates a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.
- 2.1.3 Section 19 stipulates a municipality may spend money on a capital project only if the money for the project has been appropriated in the capital budget.
- 2.1.4 Section 63(1)(a) stipulates that the AO of a municipality is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.
- 2.1.5 Section 63(2)(c) stipulates that the municipality has and maintains a system of internal control of assets, including an asset register, as may be prescribed.
- 2.1.6 Section 81(1)(e) and (2) stipulates that the CFO is responsible for SCM and is accountable to the AO.
- 2.1.7 Section 111 stipulates that each municipality must have and implement a SCM policy.
- 2.1.8 Section 112 stipulates that the SCM policy must be fair, equitable, transparent, competitive and cost-effective.
- 2.1.9 Section 113 stipulates that a municipality is not obliged to consider an unsolicited bid received outside its normal bidding process.
- 2.1.10 Section 114 stipulates if a bid other than the one recommended in the normal course of implementing the SCM policy, is approved, the AO must, in writing, notify the AG, the provincial and national treasury, of the reasons for deviating from such recommendation.
- 2.1.11 Section 115 which stipulates that the AO must:

2.1.11.1 Implement the SCM policy.

2.1.11.2 Take all reasonable steps to ensure that proper mechanisms and separation of duties in the SCM system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

2.1.12 Section 116 stipulates that a contract or agreement procured through the supply chain management system must be in writing and stipulate the terms and conditions of the contract or agreement.

2.1.13 Section 117 stipulates that no councillor of the municipality may be a member of a Municipal Bid Committee or any other committee evaluating or approving bids, quotations, contracts or other bids, nor attend any such meeting as an observer.

2.1.14 Section 118 stipulates that no person may interfere with the SCM system or amend or tamper with any bids, quotations, contracts or bids after their submission.

2.1.15 Section 119 stipulates that the AO and all other officials involved in the implementation of the SCM policy must meet the prescribed competency levels.

### **3. REGULATIONS IN TERMS OF SECTION 168 OF THE LOCAL GOVERNMENT: MUNICIPAL FINANCE MANAGEMENT ACT**

3.1 The purpose of the Regulations in terms of Section 168 of the Local Government: Municipal Finance Management Act, 2003 (Act No 56 of 2003) is:

3.1.1 To cover the establishment of SCM policies and

3.1.2 To provide a framework for SCM policies.

3.2 The aspects of SCM are:

3.2.1 It stipulates that each municipality must have and implement a SCM policy.

- 3.2.2 The council must delegate such supply chain management powers and duties to the AO.
- 3.2.3 Each municipality must establish a SCM unit (SCMU) to implement its supply chain management policy. The SCM Unit must, where possible operate under the direct supervision of the CFO.
- 3.2.4 The training of officials involved in implementing a supply chain management policy should be in accordance with any guidelines issued by the National Treasury.
- 3.2.5 The SCM system must provide effective systems for the following:
  - 3.2.5.1 Demand management.
  - 3.2.5.2 Acquisition management.
  - 3.2.5.3 Logistics management.
  - 3.2.5.4 Disposal management.
  - 3.2.5.5 Risk management
  - 3.2.5.6 Performance management.

#### **4. LOCAL GOVERNMENT: MUNICIPAL SYSTEMS ACT**

- 4.1 The purpose of the Local Government: Municipal Systems Act, Act No 32 of 2000, is:
  - 4.1.1 To provide for the core principles, mechanisms and processes that is necessary to enable municipalities to move progressively towards the social and economic upliftment of local communities, and ensure universal access to essential services that are affordable to all.

- 4.1.2 To define the legal nature of a municipality as including the local community within the municipal area, working in partnerships with the municipality's political and administrative structures.
- 4.1.3 To provide for the manner in which municipal powers and functions are exercised and performed.
- 4.1.4 To provide for community participation.
- 4.1.5 To establish a simple and enabling framework for the core processes of planning, performance management, resource mobilisation and organisational change which underpin the notion of developmental local government.
- 4.1.6 To provide a framework for local public administration and human resource development.
- 4.1.7 To empower the poor and ensure that municipalities put in place service tariffs and credit control policies that take their needs into account by providing a framework for the provision of services, service delivery agreements and municipal service Local s.
- 4.1.8 To provide for credit control and debt collection.
- 4.1.9 To establish a framework for support, monitoring and standard setting by other spheres of government in order to progressively build local government into an efficient, frontline development agency capable of integrating the activities of all spheres of government for the overall social and economic upliftment of communities in harmony with their local natural environment.
- 4.1.10 To provide for legal matters pertaining to local government and to provide for matters incidental thereto.

## **5. THE PREFERENTIAL PROCUREMENT POLICY FRAMEWORK ACT (PPPFA) AND ITS REGULATIONS**

- 5.1 The Preferential Procurement Policy Framework Act (PPPFA), Act No 5 of 2000 and its regulations issued in June 2011, was promulgated to give effect to Section 217(3) of the Constitution by providing a framework for



the implementation of the procurement policy contemplated in Section 217(2) of the Constitution.

5.2 The following are the key elements noted in the Act and regulations:

5.2.1 The Municipality must determine its preferential procurement policy within the framework of the legislation.

5.2.2 A preference point system must be followed.

5.2.3 The 90/10 principle must be applied for contracts above R1 000 000.

5.2.4 The 80/20 principle must be applied for contracts from R200 000 and to the value of R1 000 000.

5.2.5 Specific goals may include:

5.2.5.1 Contracting with persons or categories of persons historically disadvantaged because of race, gender or disability.

5.2.5.2 Promoting RDP goals.

5.2.6 Functionality and price may be evaluated.

5.2.7 Tax affairs of companies must be in order.

5.3 A revised PPPFA has been published for comment, but it is unclear when this will be promulgated.

5.4 The AO or CFO must be the one who establishes the specific goals under preference points shall be awarded

## **6. THE BROAD-BASED BLACK ECONOMIC EMPOWERMENT ACT (BBBEE ACT)**

6.1 The Broad Based Black Economic Empowerment Act (BBBEE Act), Act No 53 of 2003, provides the framework for the promotion of black economic empowerment, the establishment of a balanced scorecard and the

publication of transformation charters. A supporting strategy has also been published.

6.2 Black Economic Empowerment (BEE) is defined as an integrated and coherent socio-economic process that directly contributes to the economic transformation of South Africa and bring about significant increases in the numbers of black people that manage, own and control the country's economy, as well as significant decreases in income inequalities.

6.3 The strategy is underpinned by the following principles:

6.3.1 BEE is broad-based in that it seeks to accelerate the deracialisation of the economy and fast track the re-entry of historically marginalized communities into the mainstream of the economy.

6.3.2 BEE is an inclusive process that includes all enterprises operating within South Africa.

6.3.3 BEE is part of a growth strategy for a more equitable economy that will benefit all South Africans, individuals and enterprises. As such it stresses growth and enterprise development, including new enterprises and not only the redistribution of existing wealth.

6.4 Progress of the BEE is to be measured by a balanced scorecard that provides a framework against which to benchmark the BEE process in different enterprises and sectors.

6.5 Economic empowerment of black people including women, workers, youth and people with disabilities and people living in rural areas will be promoted through preferential procurement in order to enable meaningful participation in the economy.

6.6 The Minister of Trade and Industry may develop broad-based charters to promote BEE, and issue codes of practice that could include qualification criteria for preferential procurement and other economic activities.

## **7. THE KING REPORT ON CORPORATE GOVERNANCE FOR SOUTH AFRICA**

7.1 The municipality will subscribe to the Code of Corporate Practices Conduct in all material respects as it affects supply chain management.

- 7.2 The Report concludes that successful governance requires organisations to adopt an inclusive approach and there must be greater emphasis on the sustainable or non-financial aspects of its performance.
- 7.3 The tests of fairness, accountability, responsibility and transparency to all acts or omissions and be accountable to the organisation, but also responsive and responsible towards the organisation's stakeholders must be applied.
- 7.4 The Report describes the principles of risk management, ethical conduct, black economic empowerment and social investment prioritisation and spending.

## **8. THE PREVENTION AND COMBATING OF CORRUPT ACTIVITIES ACT**

- 8.1 The Municipality will adhere to the directives contained in the Prevention and Combating of Corrupt Activities Act, Act No 12 of 2004 as it affects the supply chain process.
- 8.2 The Act regulates offences in respect of corrupt activities relating to contracts, activities pertaining to acceptance of any gratification and the improper influence of another person as well as offences in respect of corrupt activities relating to procuring and withdrawal of tenders.

## **9. THE NATIONAL SMALL ENTERPRISE ACT**

- 9.1 The National Small Enterprise Act, Act No 102 of 1996, as amended, establishes structures to promote small enterprises. The main functions are inter alia:
  - 9.1.1 To expand, coordinate and monitor the provision of training, advice, counselling and any other non-financial services to small enterprise in accordance with the National Small Enterprise Support Strategy.
  - 9.1.2 To consult with any organ of government, the NSBC or a service provider in order to inter alia:
    - 9.1.2.1 Facilitate the provision of business advice and counselling services to small enterprises.

- 9.1.2.2 Facilitate national market access for products and services of small enterprises.
- 9.1.2.3 Generally strengthen the capacity of service providers to support small enterprises and small enterprises to compete successfully in the economy.
- 9.1.3 To enable small enterprises to compete successfully in the economy, the procurement policies and practices influence the economic behaviour of small enterprises, and therefore during the procurement process, it is important to implement guidelines to promote small enterprises.

## **10. STATE INFORMATION TECHNOLOGY AGENCY (SITA) ACT**

- 10.1 The State Information Technology Agency (SITA) Act, Act No 88 of 1998, as amended by Act 38 of 2002, requires that SITA must act as the procurement agency for every department's information technology requirements. This act prescribes that all municipalities are compelled to procure all information technology through SITA.

## **11. PUBLIC-PRIVATE PARTNERSHIPS**

- 11.1 Whatever goods, works and/or services are procured by means of public private partnerships, Chapter 11, Part 2 of the MFMA as well as the Municipal Public-Private Partnership Regulations, must be adhered to.

## **12. OTHER APPLICABLE BY-LAWS, ORDINANCE OR LEGISLATION**

- 12.1 All other applicable by-laws, ordinances or legislation impacting on SCM must be taken into account.

### **SECTION 3: AIM AND PURPOSE**

#### **1 AIM AND PURPOSE**

- 1.1 To have and maintain an efficient, fair, equitable, transparent, competitive and cost-effective supply chain operation when sourcing and procuring goods, services and works as well as the sale and letting of assets that conforms to constitutional and legislative principles and maximises the benefits from its consolidated buying power in the market place.
- 1.2 To ensure the efficient, effective and uniform disposal of assets through the procurement process.
- 1.3 The Letsemeng Local Municipality shall manage its financial and administrative resources in such a manner to meet and sustain its supply chain goals.
- 1.4 The Letsemeng Local Municipality shall create a preferential procurement system that will encourage, promote and achieve social-economic objectives and good governance.

#### **2 ESTABLISHMENT AND IMPLEMENTATION OF SUPPLY CHAIN MANAGEMENT POLICY**

- 2.1 The Letsemeng Local Municipality resolves in terms of section 111 of the MFMA to have and implement a supply chain management policy that:
  - 2.1.1 Gives effect to:
    - 2.1.1.1 Section 217 of the Constitution; and
    - 2.1.1.2 Part 1 of Chapter 11 and other applicable provisions of the Act.
  - 2.1.2 Is fair, equitable, transparent, competitive and cost effective.
  - 2.1.3 Complies with:
    - 2.1.3.1 The regulatory framework prescribed in Chapter 2 of the Regulations, and

- 2.1.3.2 Any minimum norms and standards that may be prescribed in terms of section 168 of the Act.
- 2.1.4 Is consistent with other applicable legislation.
- 2.1.5 Does not undermine the objective for uniformity in supply chain management systems between organs of state in all spheres, and
- 2.1.6 Is consistent with national economic policy concerning the promotion of investments and doing business with the public sector.
- 2.2 The municipality may not act otherwise than in accordance with this supply chain management policy when:
  - 2.2.1 Procuring goods or services.
  - 2.2.2 Disposing of goods no longer needed.
  - 2.2.3 Selecting contractors to provide assistance in the provision of municipal services otherwise than in circumstances where Chapter 8 of the Municipal Systems Act applies.
  - 2.2.4 In the case of the municipality, selecting external mechanisms referred to in section 80(1)(b) of the Municipal Systems Act for the provision of municipal services in circumstances contemplated in section 83 of that Act.
- 2.3 Subparagraphs 2.1 and 2.2 of this policy do not apply in the circumstances described in section 110(2) of the Act except where specifically provided otherwise in this policy.

### **3 ADOPTION AND AMENDMENT OF THE SUPPLY CHAIN MANAGEMENT POLICY**

- 3.1 The Accounting Officer must:
  - 3.1.1 At least annually review the implementation of this policy.

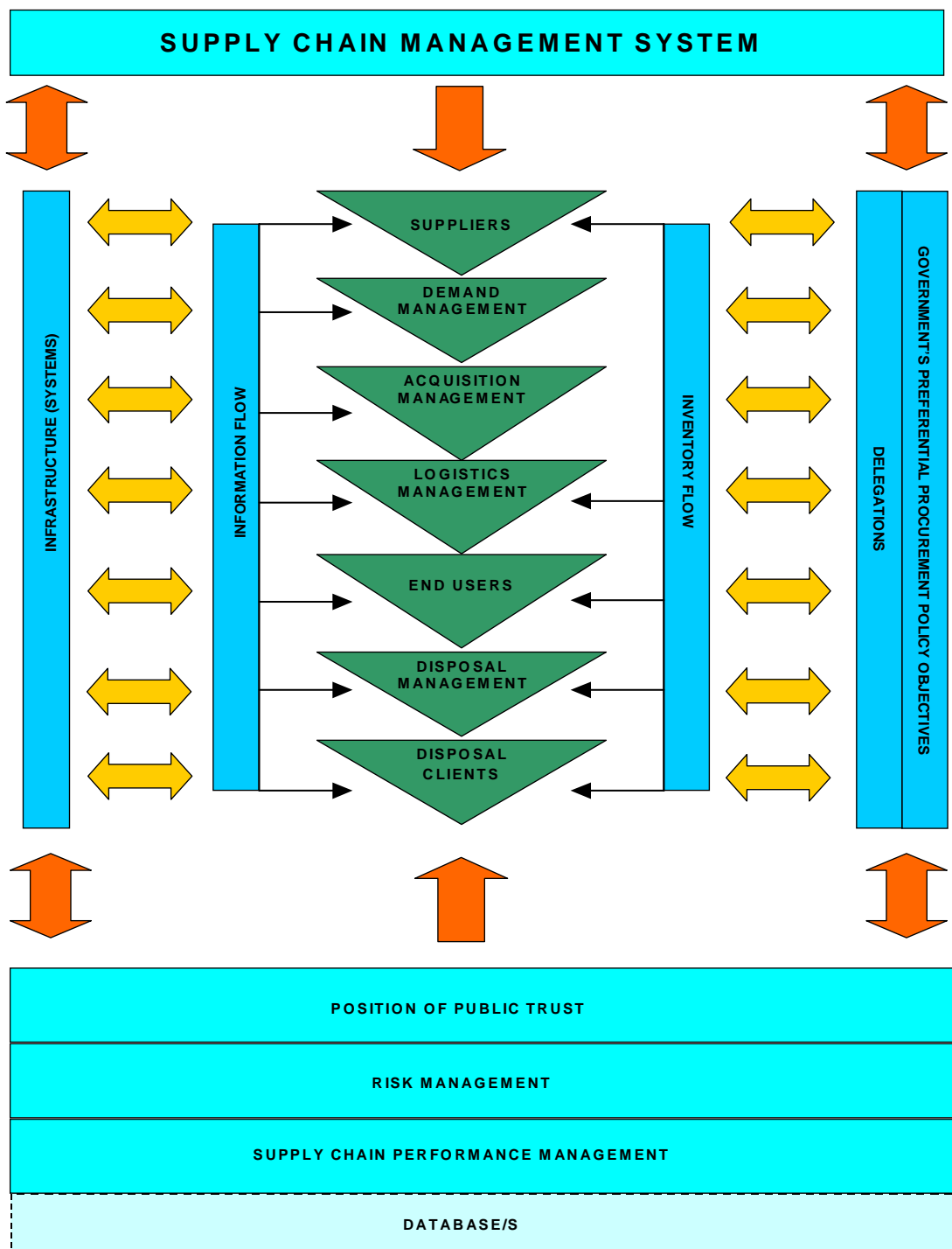
- 3.1.2 When the Accounting Officer considers it necessary, submit proposals for the amendment of this policy to the council.
- 3.2 If the Accounting Officer submits a draft policy to the council that differs from the model policy, the Accounting Officer must ensure that such draft policy complies with the Regulations. The Accounting Officer must report any deviation from the model policy to the National Treasury and the relevant Provincial Treasury.
- 3.3 When amending this supply chain management policy the need for uniformity in supply chain practices, procedures and forms between organs of state in all spheres, particularly to promote accessibility of supply chain management systems for small businesses must be taken into account.
- 3.4 The Accounting Officer of the municipality in terms of section 62(1)(f)(iv) of the Act, take all reasonable steps to ensure that the municipality has and implements this supply chain management policy.

## SECTION 4: ESTABLISHMENT

### 1. THE SUPPLY CHAIN MANAGEMENT SYSTEM

1.1 The supply chain management system can be seen as an integrated system, taking into account suppliers, clients, information and inventory flow.

1.2 The diagram below illustrates how the main functions are interlinked.





## 2 SUPPLY CHAIN MANAGEMENT UNIT

- 1.3 The Accounting Officer shall establish a supply chain management unit (SCM Unit) under finance directorate to implement this supply chain management policy.
- 1.4 The SCM Unit shall, operate under the direct supervision of the Chief Financial Officer or an official to whom this duty has been delegated in terms of section 82 of the Act.

### **FRAMEWORK FOR SUPPLY CHAIN MANAGEMENT**

- 1.5 The supply chain management unit provides for the following systems:
  - 1.5.1 Demand management.
  - 1.5.2 Acquisition management.
  - 1.5.3 Logistics management
  - 1.5.4 Disposal management.
  - 1.5.5 Risk management.
  - 1.5.6 Performance management.
  - 1.5.7 All the activities involved in acquisition and disposal of movable, immovable assets and other goods and services will done and finalized in SCM Unit.

## 3 TRAINING OF SUPPLY CHAIN MANAGEMENT OFFICIALS

- 3.1 The Accounting Officer and all other officials of the municipality involved in the implementation of the supply chain management policy of the municipality must meet the prescribed competency levels.
- 3.2 The municipality shall for the purposes of par 3.1 provide resources or opportunities for the training of officials referred to, to meet the prescribed competency levels.

- 3.3 The National Treasury or the Provincial Treasury may assist the municipality in the training of officials.
- 3.4 The training of officials involved in implementing this supply chain management policy should be trained in accordance with any guidelines issued by National Treasury.

## SECTION 6: AUTHORITY TO EXECUTE

### 1. GENERAL

- 1.1 All supply chain activities will be executed in accordance with pre-established levels of authority through delegations to ensure control and division of responsibility.
- 1.2 Any activity to be executed shall be done in accordance with a delegation. These delegations must be in writing and contained in the Municipality's delegation document.

### 2. DELEGATION OF SUPPLY CHAIN MANAGEMENT POWERS AND DUTIES

- 2.1 The Accounting Officer of the municipality delegated by council:
  - 2.1.1 Shall develop an appropriate system of delegation that will both maximise administrative and operational efficiency and provide adequate checks and balances in the municipality's financial administration.
  - 2.1.2 May, in accordance with that system, delegate to a member of the municipality's top management or any other official of the municipality:
    - 2.1.2.1 Any of the powers or duties assigned to the Accounting Officer in terms of the chapter 8 and 10 of Act and this policy.
    - 2.1.2.2 Any powers or duties reasonably necessary to assist the Accounting Officer in complying with a duty which requires the Accounting Officer to take reasonable or appropriate steps to ensure the achievement of the aims of a specific provision of the Act.
  - 2.1.3 Shall regularly review delegations issued in terms of its authority and, if necessary, amend or withdraw any of those delegations.
- 2.2 The Accounting Officer may not delegate to any political structure or political office-bearer of the municipality any of the powers or duties assigned to Accounting Officers in terms of the Act.
- 2.3 A delegation in terms of the above:

- 2.3.1 Must be in writing.
- 2.3.2 Is subject to such limitations and conditions as the Accounting Officer may impose in a specific case.
- 2.3.3 May either be to a specific individual or to the holder of a specific post in the municipality.
- 2.3.4 May, in the case of a delegation to a member of the municipality's top management authorise that member to sub-delegate the delegated power or duty to an official or the holder of a specific post in that member's area of responsibility.
- 2.3.5 Does not divest the Accounting Officer of the responsibility concerning the exercise of the delegated power or the performance of the delegated duty.
- 2.4 The Accounting Officer may confirm, vary or revoke any decision taken in consequence of a delegation or sub-delegation in terms of this section, but no such variation or revocation of a decision may detract from any rights that may have accrued as a result of the decision.
- 2.5 The Municipal Council may delegate to the Accounting Officer its power to transfer ownership or otherwise dispose of a capital asset in respect of movable capital assets below a value determined by the Council, but only after the Municipal Council, in a meeting open to the public:
  - 2.5.1 Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services.
  - 2.5.2 Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.
- 2.6 The Council of the Municipality shall delegate such supply chain management powers and duties to the Accounting Officer in order to enable the Accounting Officer to:
  - 2.6.1 Maximise administrative and operational efficiency in the implementation of the supply chain management policy.

- 2.6.2 To enforce reasonable cost-effective measures for the prevention of fraud, corruption, favouritism and unfair and irregular practices in the implementation of the supply chain management policy.
- 2.6.3 To comply with his or her responsibilities in terms of section 115 and other applicable provisions of the MFMA.
- 2.7 No supply chain management powers and duties may be delegated or sub-delegated to:
  - 2.7.1 A person who is a Councillor of any municipality.
  - 2.7.2 A committee of which a Councillor of any municipality is a member.
  - 2.7.3 A person who is not an official of the municipality.
  - 2.7.4 A committee which is not exclusively composed of officials of the municipality.
- 2.8 This paragraph may not be read as permitting an official to whom the power to make final awards has been delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in section 7, of this policy.

### **3. SUB-DELEGATIONS**

- 3.1 The Accounting Officer may in terms of section 79 of the Act sub-delegate any supply chain management powers and duties, including those delegated to the Accounting Officer in terms of this policy.
- 3.2 The power to make a final award:
  - 3.2.1 Above R10 million (VAT included) may not be sub-delegated by the Accounting Officer.
  - 3.2.2 Above R2 million (VAT included), but not exceeding R10 million (VAT included) may be sub-delegated but only to:
    - 3.2.2.1 The chief financial officer or;

- 3.2.2.2 A senior manager or;
- 3.2.2.3 A bid adjudication committee of which the chief financial officer or a senior manager is a member.
- 3.2.3 Not exceeding R2 million (VAT included) may be sub-delegated but only to:
  - 3.2.3.1 The chief financial officer.
  - 3.2.3.2 A senior manager.
  - 3.2.3.3 A manager directly accountable to the chief financial officer or a senior manager or;
  - 3.2.3.4 A bid adjudication committee.
- 3.3 An official or bid adjudication committee to which the power to make final awards has been sub-delegated must within five days of the end of each month submit to the official referred to in subparagraph 3.4 of this policy a written report containing particulars of each final award made by such official or committee during that month, including:
  - 3.3.1 The amount of the award;
  - 3.3.2 The name of the person to whom the award was made and
  - 3.3.3 The reason why the award was made to that person.
- 3.4 A written report referred to in section 6, subparagraph 3.3 of this policy must be submitted:
  - 3.4.1 To the Accounting Officer, in the case of an award by:
    - 3.4.1.1 The chief financial officer.
    - 3.4.1.2 A senior manager.

- 3.4.1.3 A bid adjudication committee of which the chief financial officer or a senior manager is a member.
- 3.4.2 The chief financial officer or the senior manager responsible for the relevant bid, in the case of an award by:
  - 3.4.2.1 A manager referred to in section 6, subparagraph 3.2.3.3 of this policy.
  - 3.4.2.2 A bid adjudication committee of which the chief financial officer or a senior manager is not a member.
- 3.5 This paragraph may not be interpreted as permitting an official to whom the power to make final awards has been sub-delegated, to make a final award in a competitive bidding process otherwise than through the committee system provided for in section 7, of this policy.
- 3.6 No supply chain management decision-making powers may be delegated to an advisor or consultant.
- 3.7 All delegations must be in writing to individual officials in top or senior management.

#### **4. DELEGATION OF DUTIES AND RESPONSIBILITIES**

- 4.1 Uninterrupted determination of responsibility and accountability should be maintained at all times to ensure that the supply chain is managed efficiently. It is imperative that the duties and responsibilities of every member of the SCM Unit be clearly defined and delegated.

##### **4.2 Responsibility**

- 4.2.1 Responsibility must be clearly delegated in writing. Formal acceptance of the delegated duties and responsibilities is also required if it is to be binding.
- 4.2.2 For an official to accept responsibility he/she has to receive formal training to execute the responsibilities and duties bestowed upon him/her. Any delegation should include referrals to the various policies/procedures for which execution the delegate is held responsible. Where necessary,

post incumbents should receive on the job training to enhance their proficiency.

### **4.3 Authority**

4.3.1 Duties and responsibilities cannot be successfully executed without proper authority. The individual, to whom duties and responsibilities have been delegated, must have the mandate to give orders and the authority to enforce obedience within the organisational parameters for proper conduct. The person must therefore be empowered to exercise the rights and to use the discretion assigned to a position.

4.3.2 The following types of authority can be delegated:

4.3.2.1 Executive authority to make defined decisions without referral to higher authority.

4.3.2.2 Authority to make recommendations.

4.3.2.3 Authority to agree with a decision before it comes mandatory.

4.3.2.4 The authority to be informed.

4.3.3 Authority must therefore be clearly defined and delegated in writing. Formal acceptance of the delegated authority is also required if it is to be binding.

### **4.4 Accountability**

4.4.1 The delegation of responsibilities and authority creates the obligation and liability to perform duties properly and in accordance with regulations. Delegation to a lower level within the municipality does not diminish the accountability vested in the higher levels within the municipality. It is therefore clear that accountability is created at every level, but can never be delegated.

### **4.5 Influence of expertise on delegations**



- 4.5.1 A function or task may only be delegated to a qualified and competent official. Accountability cannot be established if it is known that the person to be delegated to is not competent or qualified to execute the task.
- 4.5.2 A gradual delegation of responsibilities can be considered as the expertise seated in any decentralised offices increases through experience and training.

## **5. PARTICIPATION OF ADVISORS**

- 5.1 The Accounting Officer may procure the services of advisors to assist in execution of the supply chain management function, provided that:
  - 5.1.1 The appointment shall only be made through a competitive bidding process.
  - 5.1.2 No advisor shall participate in the final decision-making process regarding the award of bids.
  - 5.1.3 No decision-making authority shall be delegated to an advisor.

## **SECTION 7: ROLES AND RESPONSIBILITIES**

### **1. SUPPLY CHAIN FOCUS**

- 1.1 The roles and responsibilities of all the structures hereunder are defined only from the perspective of supply chain management.

### **2. OVERSIGHT ROLE OF THE COUNCIL**

- 2.1 The Council of Letsemeng Local municipality shall maintain an oversight over the implementation of supply chain management policy to ensure that it is within the ambit of the applicable legislation.

- 2.1.1 The Accounting Officer must, within 30 days of the end of financial year or whenever there are serious and material problems in the implementation of the supply chain management policy, submit reports on the implementation of the supply chain management to the Council of the municipality.

- 2.1.2 The Accounting Officer must within 10 days after the end of each quarter submit a report implementation of supply chain management policy to the mayor.

- 2.1.3 The reports shall be made public in accordance with section 21A of the Municipal Systems Act.

### **3. ROLE OF THE ACCOUNTING OFFICER**

- 3.1 The Accounting Officer shall:

- 3.1.1 Implement a supply chain management policy for the municipality.

- 3.1.2 Take all reasonable steps to ensure that proper mechanisms and separation of duties in the supply chain management system are in place to minimise the likelihood of fraud, corruption, favouritism and unfair and irregular practices.

- 3.2 The Accounting Officer of Letsemeng Local Municipality shall preparation and review supply chain management policy and submits to the Council of the municipality for adoption.

- 3.3 The Accounting Officer through the assistance of the Chief Financial Officer and Senior Manager shall establish and appoint members to the following bid committees:
  - 3.3.1 A bid specification committee.
  - 3.3.2 A bid evaluation committee.
  - 3.3.3 A bid adjudication committee.
- 3.4 The Accounting Officer shall appoint the members of each committee, taking into account:
  - 3.4.1 That no Councillor may be a member of a municipal bid committee or any other committee evaluating or approving bids, quotations or contract, nor attend such meeting as an observer.
  - 3.4.2 No person may:
    - 3.4.2.1 Interfere with the supply chain management system.
    - 3.4.2.2 Amend or tamper with any bids, quotations, and contracts after their submission.
- 3.5 The committee system must be consistent with:
  - 3.5.1 The MFMA.
  - 3.5.2 The Preferential Procurement Policy Framework Act and its Regulations.
  - 3.5.3 The Broad-based Black Economic Empowerment Act and its Strategy.
- 3.6 The Accounting Officer may apply the committee system to formal written price quotations if he deems it fit.
- 3.7 The Accounting Officer may procure goods and services for the municipality by utilising the committee system of another municipality or

municipal entity in terms of an agreement with that other municipality or municipal entity.

- 3.8 Approve the amount to be paid by prospective service providers as non-refundable deposit for enquiry documents issued by the municipality.

#### **4. ROLE OF THE CHIEF FINANCIAL OFFICER (CFO)**

- 4.1 The Chief Financial Officer shall be the custodian of SCM policy and report progress regarding the implementation of the supply chain management and supply chain management policy to the accounting officer who will report to council.

- 4.1.1 Responsible for the overall management of the supply chain management unit.

- 4.1.2 Responsible to ensure that the supply chain management policy is adhered to.

- 4.1.3 Responsible to ensure that all employees involved in the supply chain management process receive the necessary training and support to implement the SCM Policy.

- 4.1.4 Responsible to determine the amount to be paid by prospective service providers as a non-refundable deposit for enquiry documents issued by the municipality.

- 4.1.5 Shall approve all applications of service providers for possible inclusion in the register of service providers (service providers' data base).

#### **5. ROLE OF BID SPECIFICATION COMMITTEES**

##### **5.1 COMPOSITION**

- 5.1.1 The bid specification committee shall be composed of:

- 5.1.1.1 One or more officials from the municipality and preferably from user departments requiring goods or services.

5.1.1.2 Supply chain practitioners must be present.

5.1.1.3 May, where appropriate, include external technical specialists.

5.1.2 No person, advisor or corporate entity involved with the bid specification committee, or director of such a corporate entity, may bid for any resulting contracts.

## **5.2 RESPONSIBILITIES**

5.2.1 To compile the specifications for each procurement of goods or services by the municipality.

5.2.2 Specifications –

5.2.2.1 Shall be drafted in an unbiased manner to allow all potential suppliers to offer their goods or services.

5.2.2.2 Shall take account of any accepted standards such as those issued by standard South Africa, the international standard organisation, or an authorised accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply.

5.2.2.3 Must where possible, be described in terms of performance required rather than in terms of descriptive characteristics.

5.2.2.4. May not create trade barriers in contract requirements in the form of specification, plans, drawing, designs, testing and test method, packaging, marking or labelling of conformity certification.

5.2.2.5. May not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the word equivalent.

5.2.2.6. Shall indicate each specific goal for which points may be awarded in terms of the points system set out in the Preferential Procurement Regulations of 2001.

5.2.2.7. Shall be approved by the Accounting Officer/his delegate prior to publication of the invitation for bids.

## **6. ROLE OF BID EVALUATION COMMITTEE**

### **6.1 COMPOSITION**

6.1.1 The Committee shall so far as it may be possible:

6.1.1.1 Be cross-functional.

6.1.1.2 Be composed of:

- ☐ Officials from the departments requiring the goods or services.

- ☐ At least one supply chain management practitioner.

6.1.1.3 Allow for a neutral or independent person to monitor the fairness of the proceedings.

### **6.2 FUNCTIONS AND RESPONSIBILITIES**

6.2.1 The bid evaluation committee shall:

6.2.1.1 Evaluate bids in accordance with:

- ☐ The specifications for a specific procurement.

- ☐ The preference point system in terms of the Preferential Procurement Policy Framework Act.

6.2.1.2 Evaluate each bidder's ability to execute the contract.

6.2.1.3 Check in respect of each bidder whether:

☐ A tax clearance certificate, issued by SARS, has been submitted.

☐ Municipal rates and taxes and municipal service charges are not more than three months in arrears.

6.2.1.4 The Chief Financial Officer shall ensure that, irrespective of the procurement process followed, no award above R30 000 (vat included) is given to a person whose tax matters have not been declared by the South African Revenue Services to be in order. SARS tax clearance certificate will be sufficient in this regard.

6.2.1.5 SARS may be consulted as a secondary measure, if SARS does not respond within 7 days such person's tax matters may for purposes of subparagraph 5.2.1.4 be presumed to be in order.

6.2.1.6 Verify whether national industrial participation programme requirements have been complied with, if the contract is in excess of R100 million.

6.2.1.7 Submit to the adjudication committee a report and recommendations regarding the award of the bid or any other related matter for consideration.

## **7. ROLE OF BID ADJUDICATION COMMITTEE**

### **7.1 COMPOSITION**

7.1.1 The Bid Adjudication Committee must be cross-functional.

7.1.2 The Bid Adjudication Committee shall consist of:

7.1.2.1 The Accounting Officer will appoint the chairperson of the committee amongst Senior Managers or if the Senior Managers are not available, another official of the municipality designated by the Accounting Officer.

7.1.2.2 At least three top or senior management (including the CFO) officials of the municipality.

7.1.2.3 At least one supply chain management practitioner, who is an official of the municipality.

7.1.2.4 When necessary, a technical expert in the relevant field, who is an official.

7.1.3 If the chairperson is absent from a meeting, the members of the committee who are present must elect one of them to preside the meeting.

7.1.4 Neither a member of a bid evaluation committee, nor an advisor or person assisting the evaluation committee, may be a member of a bid adjudication committee.

7.1.5 A member of the bid evaluation committee might be asked to present the bid evaluation report but shall not vote in the proceedings.

## **7.2 FUNCTIONS AND RESPONSIBILITIES**

7.2.1 The bid adjudication committee shall consider the report and recommendations of the bid evaluation committee and either make a final award depending on delegations, or make another recommendation to the Accounting Officer to make the final award.

7.2.2 Make another recommendation to the Accounting Officer on how to proceed with the relevant procurement.

7.2.3 If the bid adjudication committee decides to award a bid other than the one recommended by the bid evaluation committee, the bid adjudication committee shall prior to awarding the bid:

7.2.3.1 Check in respect of the preferred bidder whether the bidder's municipal rates and taxes and municipal services charges are not in arrears for the period more than three months.

7.2.3.2 Notify the Accounting Officer.

7.2.4 The Accounting Officer may:

7.2.4.1 After due consideration of the reasons for the deviation, ratify or reject the decision of the bid adjudication committee.



7.2.4.2 If the decision of the bid adjudication committee is rejected, refer the decision of the adjudication committee back to that committee for reconsideration

7.2.5 The Accounting Officer may at any stage of a bidding process, refer any recommendation made by the evaluation committee or the adjudication committee back to the committee for reconsideration of the recommendation.

7.2.6 The Accounting Officer must, in writing, notify the Auditor-General, the Provincial Treasury and the National Treasury of the reasons for deviating from such recommendation, within 10 working days.

7.2.7 Prohibition on awards to persons in the service of the state.

7.2.7.1 The Accounting Officer shall ensure that irrespective of the procurement process followed, no award may be given to a person:

- ☐ Who is in the service of the state.
- ☐ Who has been in the service of state within the last twelve months of the date of an award.
- ☐ If that person is not a natural person, of which any director, manager, principal shareholder or stakeholder is a person in the service of the state.
- ☐ A person who is an advisor or consultant contracted with the municipality.

7.2.8 Awards to close family members of persons in the service of the state without prior disclosure.

7.2.8.1 The notes to the annual financial statements must disclose particulars of any award of more than R2 000 to a person who is a spouse, child or parent of a person in the service of the state, or has been in the service of the state in the previous twelve months, including:

- ☐ The name of that person.

- ☐ The capacity in which that person is in the service of the state.
- ☐ The amount of the award.

## **8. ROLES OF THE DISPOSAL COMMITTEE**

### **8.1 COMPOSITION**

- 8.1.1 The chairperson (Municipal Manager) of the Committee shall appoint at least a minimum of three members to the Committee in writing. One of the members of the Committee must be proficient in logistics management (Supply Chain Management Practitioner). All members of the Committee must at all times objectively evaluate the items that are submitted for disposal.
- 8.1.2 In addition to the abovementioned members of the Committee, the chairperson may at anytime during the process of evaluation of specialised stores/equipment co-opt additional members who possess specialised knowledge in the relevant field in writing. An official who is in direct control of stores/equipment, which is to be evaluated may not serve as a member of the Committee, but can assist the Committee in the evaluation process.

## **SECTION 8: ETHICS IN SCM**

### **1. COMBATING THE ABUSE OF SUPPLY CHAIN MANAGEMENT SYSTEM**

- 1.1 In combating the abuse of the supply chain management system, the Accounting Officer shall:
  - 1.1.1 Take all reasonable steps to prevent such abuse.
  - 1.1.2 Investigate any allegations against an official or other role player of fraud, corruption, favouritism, unfair or irregular practices or failure to comply with the supply chain management policy, and when justified:
    - 1.1.2.1 Take appropriate steps against such official or other role player.
    - 1.1.2.2 Report any alleged criminal conduct to the South African Police Service (SAPS).
  - 1.1.3 Check the National Treasury's database prior to awarding any contract to ensure that no recommended bidder, or any of its directors, is listed as a person prohibited from doing business with the public sector.
  - 1.1.4 Reject any bid from a bidder:
    - 1.1.4.1 Who fails to provide written proof from the South African Revenue Services (SARS) that that bidder either has no outstanding tax obligations or has made arrangements to meet outstanding tax obligations.
    - 1.1.4.2 Whose municipal rates and taxes or municipal service charges owed to the municipality, or other municipalities, are in arrears..
    - 1.1.4.3 Who during the last five years has failed to perform satisfactorily on a previous contract with the municipality or entity after written notice was given to that bidder that performance was unsatisfactory.
  - 1.1.5 Reject a recommendation for the award of a contract if the recommended bidder has committed a corrupt or fraudulent act in competing for the particular contract.

1.1.6 Cancel a contract awarded to a person if:

1.1.6.1 The person committed any corrupt or fraudulent act during the bidding process or the execution of the contract.

1.1.6.2 An official or other role player committed any corrupt or fraudulent act during the bidding process or the execution of the contract that benefited that person.

1.1.7 Reject the bid of any bidder if that bidder, or any of its directors:

1.1.7.1 Has abused the supply chain management system of the municipality or has committed any improper conduct in relation to such system.

1.1.7.2 Has been convicted of fraud or corruption during the past five years.

1.1.7.3 Has wilfully neglected, reneged on or failed to comply with any government, municipal or other public sector contract during the past five years.

1.1.7.4 Has been listed in the Register for Tender Defaulters in terms of section 29 of the Prevention and Combating of Corrupt Activities Act, Act No 12 of 2004.

1.2 The Accounting Officer shall inform the Provincial Treasury in writing of any actions taken in terms of the above paragraphs.

## **2. ETHICAL STANDARDS**

2.1 A code of ethical standards shall be established and acknowledged by all role players to comply with paragraph 2.2 for officials and other role players in the supply chain management system in order to promote:

2.1.1 Mutual trust and respect.

- 2.1.2 An environment where business can be conducted with integrity and in a fair and reasonable manner.
- 2.2 A municipal code of ethical standards shall stipulate that an official or other role player involved in the implementation of the supply chain management policy of the municipality.
- 2.2.1 Must treat all providers and potential providers equitably.
- 2.2.2 May not use his or her position for private gain or to improperly benefit another person.
- 2.2.3 May not accept any reward, gift, favour, hospitality or other benefit directly or indirectly, including to any close family member, partner or associate of that person.
- 2.2.4 Notwithstanding paragraph 2.2.3, must declare to the Accounting Officer details of any reward, gift, favour, hospitality or other benefit promised, offered or granted to that person or to any close family member, partner or associate of that person.
- 2.2.5 Must declare to the Accounting Officer details of any private or business interest which that person, or any close family member, partner or associate, may have in any proposed procurement or disposal process of, or in any award of a contract by, the municipality.
- 2.2.6 Must immediately withdraw from participating in any manner whatsoever in a procurement or disposal process or in the award of a contract in which that person, or any close family member, partner or associate, has any private or business interest.
- 2.2.7 Must be scrupulous in his or her use of property belonging to the municipality.
- 2.2.8 Must assist the Accounting Officer in combating fraud, corruption, favouritism and unfair and irregular practices in the supply chain management system.
- 2.2.9 Must report to the Accounting Officer any alleged irregular conduct in the supply chain management system which that person may become aware of, including:

- 2.2.9.1 Any alleged fraud, corruption, favouritism or unfair conduct.
- 2.2.9.2 Any alleged contravention in the promise, offer or grant of any reward, gift, favour or hospitality.
- 2.2.9.3 Any alleged breach of the code of ethical standards.
- 2.3 This policy provides that:
  - 2.3.1 All declarations in terms of paragraph 2.2.4 and 2.2.5 shall be recorded in a register, which the Accounting Officer must keep for this purpose.
  - 2.3.2 All declarations by the Accounting Officer shall be made to the mayor and that the mayor must ensure that such declarations are recorded in the register.
  - 2.3.3 Contain measures to ensure that appropriate action is taken against any official or other role player who commits a breach of the code of ethical standards.
- 2.4 The National Treasury's code of conduct for supply chain management practitioners and other role players involved in supply chain management must be taken into account.
- 2.5 The municipality may adopt the National Treasury's code of conduct for supply chain management practitioners and other role players involved in supply chain management. When adopted, such code of conduct becomes binding on all officials and other role players involved in the implementation of the supply chain management policy of the municipality.
- 2.6 A breach of the code of conduct adopted by the municipality must be dealt with in accordance with schedule 2 of the Systems Act.

### **3. REWARDS, GIFTS AND FAVOURS TO MUNICIPAL OFFICIALS AND OTHER ROLE PLAYERS**

- 3.1 No person who is a provider of goods or services or prospective provider of goods or services to the municipality, or a recipient or

prospective recipient of goods disposed, or to be disposed of, by the municipality, may either directly or through a representative or intermediary promise, offer or grant any reward, gift, favour or hospitality to:

- 3.1.1 Any official of the municipality.
- 3.1.2 Any other role player involved in the implementation of the supply chain management policy of the municipality.
- 3.1.3 Any inducement or reward to the municipality for or in connection with the award of a contract.
- 3.2 The Accounting Officer shall promptly report any alleged contravention of paragraph 3.1 to the National Treasury for considering whether the offending person, and any representative or intermediary through which such person is alleged to have acted, should be listed in the National Treasury's database of persons prohibited from doing business with the public sector.
- 3.3 The promise, offer or grant of any reward, gift, favour or hospitality do not apply to gifts less than R350,00 in value.

#### **4. SPONSORSHIPS**

- 4.1 The Accounting Officer must promptly disclose to the National Treasury and the provincial treasury any sponsorship promised, offered or granted to the municipality, whether directly or through a representative or intermediary, by any person who is:
  - 4.1.1 A provider of goods or services or prospective provider of goods or services to the municipality or entity.
  - 4.1.2 A recipient or prospective recipient of goods disposed, or to be disposed of, by the municipality.

#### **5. OFFENCES**

- 5.1 The Accounting Officer is guilty of an offence if he/she:

- 5.1.1 Deliberately or in a grossly negligent way:
  - 5.1.1.1 Contravenes or fails to comply with a provision of sections 61(1), 61(2)(b), 63(2)(a) or (c) or 65(2)(i) of the Act.
  - 5.1.1.2 Fails to take reasonable steps to implement the municipality's supply chain management policy.
  - 5.1.1.3 Fails to take all reasonable steps to prevent unauthorised, irregular or fruitless and wasteful expenditure.
  - 5.1.1.4 Fails to take all reasonable steps to prevent corruptive practices in:
    - ☐ The management of the municipality's assets.
    - ☐ The implementation of the municipality's supply chain management policy.
- 5.1.2 Deliberately provides false or misleading information in any document which in terms of a requirement of the Act must be:
  - 5.1.2.1 Submitted to the Auditor-General, the National Treasury or any other organ of state.
  - 5.1.2.2 Made public.
- 5.2 A senior manager or other official of the municipality exercising financial management responsibilities and to whom a power or duty was delegated in terms of Section 79, is guilty of an offence if that senior manager or official deliberately or in a grossly negligent way contravenes or fails to comply with a condition of the delegation.



## **SECTION 9: RISK MANAGEMENT**

### **1. RISK MANAGEMENT**

- 1.1 Risk management is a key responsibility of the Accounting Officer. Treasury Regulations assign responsibilities for aspects of risk management to the CFO, the internal audit function and the Audit Committee, each of which are accountable to the Accounting Officer for the discharge of their responsibilities.
- 1.2 Risk management is a continuous and proactive process that relates to all organisational activities at all levels. All managers must have a thorough understanding of the risks involved in the activities under their control and actively work towards managing these risks. Each manager has a responsibility toward risk management.

### **2. ELEMENTS OF RISK MANAGEMENT**

- 2.1 Assessing the nature and extent of the risks associated with the municipality's operations.
- 2.2 Deciding an acceptable level of loss or degree of failure.
- 2.3 Deciding how to manage (minimise) the risk.
- 2.4 Monitoring, reporting and from time to time re-assessing the level and implications of the risk exposure.

### **3. APPLICATION OF RISK MANAGEMENT**

- 3.1 Risks must be identified and assessed and are essentially driven by the objectives that must be achieved.
- 3.2 Decisions must be taken with regard to minimising the municipality's exposure to risk, as well as to the potential effects of risks. The focus should be on an approach involving preventing risks from materialising, detecting the effects of risks as soon as possible and correcting or recovering from the consequences.
- 3.3 Risk management decisions must continuously involve a cost benefit analysis (considerations of economy). The cost of controlling (minimising)

a risk must not exceed the benefits to the Municipality. Benefits can include the objective or subjective measurement of the cost to the organisation if the particular risk should materialise. (If it is not controlled what is the potential cost to the municipality?).

- 3.4 The identification, assessment and controlling of risks necessarily implies a specific management process including various stages and steps.
- 3.5 The controlling (minimising) of identified risks essentially refers to the development and implementation of risk management techniques.
- 3.6 Risk management entails, inter alia, a management culture that accepts that all business opportunities entail risk taking. The trade-off between success and failure and to decide what is an acceptable risk (having regard to its cost and other social or political factors) that a programme might not achieve any or all of its objectives.
- 3.7 A major component of risk management is the establishment of a fraud prevention plan which aims to manage the risk of fraud through cost-effective use of the control environment, information systems, control procedures and an ethical culture within the Municipality.
- 3.8 Risk shall be:
  - 3.8.1 Identified on a case-by-case basis.
  - 3.8.2 Allocated to the party best able to manage such risks.
- 3.9 The municipality should bear the cost of risks where the costs of transferring risk is greater than that of retaining such risk and transfer to risk where this is not the case.
- 3.10 The exercise of risk management in a proactive manner and providing adequately for the cover of residual risks.
- 3.11 Contract documentation clearly and unambiguously assigning relative risks to the contracting parties.
- 3.12 Risk management should form part of the business plan for the acquisition of all goods, services and works.

- 3.13 The municipality should either insure for procurement related physical risks, establish risk management programmes or make advance provision for losses associated with such risks. Suitable arrangements should also be made to ensure that insurance related excesses do not cause the failure of emerging small and micro enterprises.

### **3.14 GUARANTEES**

- 3.14.1 Performance guarantees should be commensurate with the degree of contractual risk to which the municipality are exposed.
- 3.14.2 In cases of large and complex contracts, it is advisable to call for bid guarantees to circumvent the submission of irresponsible bids.
- 3.14.3 Performance guarantees should spread the cost of the risk of failure between the contracting parties and should be set at such a level that all the municipality's costs relating to such failure are likely to be recovered.
- 3.14.4 It would be prudent to make adequate provision in all engineering and construction works contracts to ensure that monies are available to rectify defects.
- 3.14.5 Performance bonds in engineering and construction works contracts should be waived in low value, low risk contracts or where a third party carries the risk of failure in an acceptable manner.

### **3.15 RISK MANAGEMENT SYSTEM**

- 3.15.1 A supply chain management processes shall provide for an effective system of risk management for the identification, consideration and avoidance of potential risks in the supply chain management system.

### **3.16 PROJECT MANAGEMENT**

- 3.16.1 To be firstly effective, risk management should be managed as a project with written objectives, milestones and resources (people, time, finances, etc). The following aspects are highlighted:
- 3.16.1.1 Integrated control is essential to achieve the desired result.

3.16.1.2 The scope, timeframes, cost, other resources must all be investigated and documented.

3.16.1.3 The quality of the outcome must also be identified and quantified.

3.16.1.4 Risk management policies, plans and procedures, including duties and responsibilities, must be effectively communicated to all concerned.

3.16.1.5 All real or potential risks must be identified.

## SECTION 10: DEMAND MANAGEMENT

### 1. SYSTEM OF DEMAND MANAGEMENT

- 1.1 The purpose of demand management is to translate the integrated development plan in the annual performance plans into current and future needs, to cost and budget for it.
- 1.2 The Accounting Officer shall establish, through operational procedures, an effective system of demand management in order to ensure that the resources required to support the strategic and operational commitments are delivered at the correct time, at the right price and at the right location, and that the quantity and quality satisfy the needs.
- 1.3 The system has eight (8) specific sub-processes:

	Activity	Responsibility
1.3.1	Appointment of other members	Municipal Manager
1.3.2	Assessment of current and future needs	Municipal Manager & Heads of Departments
1.3.3	Assessment of current assets and determine the net requirements	Chief Financial Officer & Heads of Departments
1.3.4	Analysis of past expenditure	Budget Office
1.3.5	Analysis of the supplying industry	SCM Unit
1.3.6	Determine the optimum method to satisfy the needs	SCM Unit
1.3.7	Determine a sourcing strategy	SCM Unit
1.3.8	Formulate budget inputs	Heads of Departments

### 2. CROSS-FUNCTIONAL TEAM

- 2.1 Demand management will be a cross-functional exercise that bring the supply chain practitioners closer to the end user and ensures that value for money is achieved.

- 2.2 Cross-functional activities can be form part of the accounting officer's management meetings.

### **2.3 COMPOSITION OF THE CROSS-FUNCTIONAL TEAM**

- 2.3.1 Municipal Manager (also the chairperson).
- 2.3.2 The Head of the Supply Chain Management Unit.
- 2.3.3 Heads of all departments.
- 2.3.4 Representative from Human Resources.
- 2.3.5 Representative from the Budget Office.
- 2.3.6 Any technical expertise as required.

### **2.4 FUNCTIONS AND RESPONSIBILITIES**

- 2.4.1 To determine the current and future needs as required by the integrated development plan and to cost these requirements.
- 2.4.2 To formulate inputs for the 5-year strategic and performance plan, the annual performance plan and the operational plan.
- 2.4.3 To finalise the business plan for the next financial year.

## **3. ASSESSMENT OF CURRENT AND FUTURE NEEDS**

- 3.1 The integrated development plan (IDP) shall be analysed in terms of goods, services and works required over the short and medium term.
- 3.2 Forecasting techniques could be used to determine the quantity of resources needed.
- 3.3 The IDP will also indicate where, when and the frequency of needs required.

3.4 Any critical delivery dates of resources must be noted.

#### **4. ASSESSMENT OF CURRENT ASSETS AND DETERMINE NET REQUIREMENTS**

4.1 The annual stocktake will give details on available stock (including assets).

4.2 The accounting records must be used to determine goods in transit.

4.3 The following list must be compiled:

4.3.1 List of redundant assets.

4.3.2 List of obsolete assets.

4.3.3 List of assets to be renewed.

4.4 With the abovementioned information the supply and demand requirements of each and every commodity and service can be determined to give the net requirements.

4.5 The net requirements are in terms of current and future needs to support the IDP.

#### **5. AN ANALYSIS OF PAST EXPENDITURE**

5.1 The expenditure in the past shall be analysed in terms of commodities and services purchased.

5.2

5.3 The following information must be noted:

5.3.1 Supplier/service provider.

5.3.2 The price.

5.3.3 The location of the supplier/service provider.

5.3.4 Availability of specifications/terms of reference.

5.4 If necessary compile the required specifications/terms of reference.

## **6. ANALYSIS OF THE SUPPLYING INDUSTRY**

6.1 The supplying industries must be analysed to determine the following:

6.1.1 Name of the supplier/service provider.

6.1.2 What is available in terms of the specifications/terms of reference?

6.1.3 The current price and any discounts applicable.

6.1.4 The location of the goods.

6.1.5 The lead and delivery times.

## **7. DETERMINE THE OPTIMUM METHODS TO SATISFY NEEDS**

7.1 Calculate the life cycle cost (LCC) of each commodity.

7.1.1 Lifecycle costing must include costs associated from the commencement of the budgeting process until the disposal phase.

7.2 Determine cost saving levers:

7.2.1 The levers for the saving of costs are transversal and therefore applicable to all SCM functions. Cost saving levers can be applied in the following areas:

7.2.1.1 Quicker and more effective and efficient procurement.

7.2.1.2 Just-in-time principle.



- 7.2.1.3 Value for money.
- 7.2.1.4 Term contracts for repetitive requirements.
- 7.2.1.5 Streamlined procedures and control measures.
- 7.2.1.6 Establishing trained and competent SCM officials.
- 7.2.1.7 Effective use of procurement stages.
- 7.2.1.8 Discount for early payments.
- 7.2.1.9 The regular management of cash flow.
- 7.3 Determine the net present value of each project.
- 7.4 Make use of economies of scale.
- 7.5 Determine total cost of ownership (TCO).
  - 7.5.1 The TCO is used for decisions on ownership of assets. All costs applicable to ownership should be included in any analysis where decisions should be made on the options of owning a capability or the contracting for the supply of the service.
  - 7.5.2 The cost of ownership should be projected over several years to obtain a balanced result about the actual costs and the influence of the decision on future budgets.
- 7.6 The optimum method to satisfy the needs must be evaluated by the following dimensions to determine the optimum method:
  - 7.6.1 Equity**
    - 7.6.1.1 Measures of equity would monitor the extent to which the municipality has achieved and been able to maintain an equitable supply of comparable services across race groups, regions, and urban and rural areas.

## **7.6.2 Efficiency**

- 7.6.2.1 Measures of efficiency seek to reflect how productively resources are translated into service delivery.

## **7.6.3 Economy**

- 7.6.3.1 Measures of economy look at the cost of inputs, and mode of production to evaluate whether it is cost-effective.

## **7.6.4 Effectiveness**

- 7.6.4.1 Indicators of effectiveness seek to reflect how well the outputs contribute to the achievement of the desired outcomes/objectives/goals.

## **7.6.5 Value for money**

- 7.6.5.1 Indicators of value for money explore people's perceptions on whether resources have been well used to impact upon specific outcomes.

# **8. DETERMINE A SOURCING STRATEGY**

- 8.1 With the information on current and future needs available the acquisition management practitioners can develop a sourcing strategy.
- 8.2 A sourcing strategy determines together with the strategic plan where the goods, services and works can be obtained. This does not imply that these requirements should be procured from outside sources only. Thus all possible methods of obtaining the requirements should be investigated.
- 8.3 The sourcing strategy shall address value for money principles, such as the just in time principle.
- 8.4 Cognisance shall be taken of the nature of the commodity or service required, the conditions of delivery, the prospective providers and the goals to be promoted.

8.5 Priorities shall be determined and risk management plans shall be developed by using the following sub-categories:

8.5.1 Non-critical (simple, low risk, low value goods/services).

8.5.2 Supportive (simple, low risk, but relatively high value goods/services).

8.5.3 Critical (high complexity, high risk, but relatively high value goods/services).

8.5.4 Risks can be transferred to providers where possible, by specifying risks to be carried by them and guarantees to be provided in this regard.

8.6 Strategic sourcing includes a streamlined approval process. The following serves as a guideline:

8.6.1 Increasing the threshold for purchasing manager approval.

8.6.2 Databases of authorised items can be automatically checked, excluding manual approval.

8.6.3 Approval against budgets without top management intervention. This eliminates the need for multiple managers to approve a purchase, which was already planned as part of the budget.

8.6.4 Limiting approvals to the appropriate level of knowledge and/or experience. Thus eliminating multiple approvals.

8.6.5 Streamline sign-off by means of after the facts audits (sampling) to ensure that purchasing guidelines are appropriately followed.

## **8.7 DETERMINING A SELECTION METHOD**

8.7.1 The following methods should be used:

8.7.1.1 Available stock.

8.7.1.2 Sourcing from other government institutions.

8.7.1.3 Transversal term contracts.

8.7.1.4 Sourcing from the State Information Technology Agency approved suppliers.

8.7.1.5 Building, engineering or construction works.

8.7.1.6 Public Private Partnership

8.7.1.7 Quotations.

8.7.1.8 Competitive bidding.

8.7.1.9 List of redundant/obsolete material/goods from other institutions.

8.7.1.10 Negotiations.

## **9. GOODS NECESSITATING SPECIAL SAFETY ARRANGEMENTS**

9.1. The acquisition and storage of goods in bulk (other than water) which necessitate special safety arrangements, including gasses and fuel, should be avoided where ever possible.

9.2. Where the storage of goods in bulk is justified, such justification must be based on sound reasons, including the total cost of ownership, cost advantages and environmental impact and must be approved by the accounting officer.

### **9.3. Proudly SA Campaign**

The accounting officer must determine internal operating procedures supporting the Proudly SA Campaign to the extent that, all things being equal, preference is given to procuring local goods and services from:

- Firstly –suppliers and businesses within the municipality or district;
- Secondly – suppliers and businesses within the relevant province;
- Thirdly – suppliers and businesses within the Republic of South Africa

## **10. PUBLIC-PRIVATE PARTNERSHIPS**

10.1 The municipality may enter into a public-private partnership agreement, but only if the municipality can demonstrate that the agreement will:

10.1.1 Provide value for money to the municipality.

10.1.2 Be affordable for the municipality.

10.1.3 Transfer appropriate technical, operational and financial risk to the private party.

10.2 A public-private partnership agreement must comply with any prescribed regulatory framework for public-private partnerships.

10.3 If the public-private partnership involves the provision of a municipal service, Chapter 8 of the Municipal Systems Act must also be complied with.

10.4 Before a public-private partnership is concluded, the municipality must conduct a feasibility study that:

10.4.1 Explains the strategic and operational benefits of the public-private partnership for the municipality in terms of its objectives.

10.4.2 Describes in specific terms:

10.4.2.1 The nature of the private party's role in the public-private partnership.

10.4.2.2 The extent to which a private party, both legally and by nature, can perform this role.

10.4.2.3 How the proposed agreement will:

☐ Provide value for money to the municipality.

☐ Be affordable for the municipality.

- ☐ Transfer appropriate technical, operational and financial risks to the private party.
- ☐ Impact on the municipality's revenue flows and its current and future budgets.

10.4.3 Take into account all relevant information.

10.4.4 Explains the capacity of the municipality to effectively monitor, manage and enforce the agreement.

10.5 The National Government may assist the municipality in carrying out and assessing feasibility studies referred to in paragraph 12.4.

10.6 When a feasibility study has been completed, the Accounting Officer of the municipality must:

10.6.1 Submit the report on the feasibility study together with all other relevant documents to the Council for a decision, in principle, on whether the municipality should continue with the proposed public-private partnership.

10.6.2 At least 60 days prior to the meeting of the Council at which the matter is to be considered, in accordance with Section 21A of the Municipal Systems Act:

10.6.2.1 Make public particulars of the proposed public-private partnership, including the report on the feasibility study.

10.6.2.2 Invite the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed public-private partnership.

10.6.3 Solicit the views and recommendations of:

10.6.3.1 The National Treasury.

10.6.3.2 The national department responsible for local government.

10.6.3.3 If the public-private partnership involves the provision of water, sanitation, electricity or any other service as may be prescribed, the responsible national department.

10.6.3.4 Any other national or provincial organ of state as may be prescribed.

10.7 Before a municipality initiates a feasibility study for a public-private partnership, the Accounting Officer must:

10.7.1 Notify the National Treasury and the Provincial Treasury in writing of the municipality's intention, together with information on the expertise within the municipality to comply with that section of the Act.

10.7.2 If requested to do so by the National Treasury or the Provincial Treasury, appoint a person with appropriate skills and experience, either from within or outside the municipality, as the transaction advisor to assist and advise the municipality on the preparation and procurement of the public-private partnership agreement.

10.8 The above paragraph also applies when the municipality in terms of Section 78(2) of the Municipal Systems Act explores the provision of a municipal service through an external mechanism to be appointed in terms of a public-private partnership agreement.

10.9 A feasibility study must:

10.9.1 Identify and define the activity which the municipality proposes to outsource to a private party.

10.9.2 Assess the needs of the municipality in respect of such activity, including:

10.9.2.1 The various options available to the municipality to satisfy those needs.

10.9.2.2 The advantages and disadvantages of each option.

10.9.3 Assess the projected impact of the proposed outsourcing of the activity to a private party on the staff, assets, liabilities and revenue of the municipality under the sole or shared control of the municipality which must include an assessment of:

- 10.9.3.1 The number of officials of the municipality that would become redundant as a result of the outsourcing of the activity.
- 10.9.3.2 The cost of the municipality of any staff retrenchments or the retention of redundant staff.
- 10.9.3.3 Any assets of the municipality proposed to be placed under the control of the private party.
- 10.9.3.4 Any assets of the municipality that would become obsolete as a result of the outsourcing of the activity.
- 10.9.3.5 Any liabilities of the municipality proposed to be ceded to the private party.
- 10.9.3.6 Any debt of the municipality attributed to the activity to be outsourced which the municipality would retain.
- 10.9.3.7 Any revenue to be foregone by the municipality as a result of the outsourcing of the activity.
- 10.9.4 Recommend an appropriate plan for the procurement of the proposed public-private partnership agreement, if outsourcing of the activity is the preferred option.
- 10.10 An assessment in terms of paragraph 12.9.2 must show comparative projections of:
  - 10.10.1 The full costs to the municipality for the activity if that activity is not outsourced through a public-private partnership agreement.
  - 10.10.2 The full costs to the municipality for the activity if that activity is outsourced through a public-private partnership.
- 10.11 Paragraphs 12.9 and 12.10 need not be complied with if the activity which the municipality proposed to outsource is a municipal service in respect of which an assessment in terms of Section 78(3)(b) and a feasibility study in terms of Section 78(4) of the Municipal Systems Act have already been carried out, provided that:



10.11.1 Such assessment and feasibility study cover the matters referred to in paragraphs 12.9 and 12.10.

10.11.2 The documents reflecting the results of such assessment and feasibility study are included in the documents submitted to the Council.

## **11. COMPILATION OF SPECIFICATIONS / TERMS OF REFERENCE**

11.1 The bid specification committee shall ensure specifications/terms of reference are drafted in an unbiased manner to allow all potential providers to offer their goods and services.

11.2 The specification/terms of reference shall indicate each specific goal for which points may be awarded in terms of the Preferential Procurement Policy Framework Act.

11.3 All specifications/terms of reference shall be approved by the Accounting Officer /or his delegate prior to publication of the invitation of bids.

11.4 Specifications must take account of any accepted standards such as those issued by Standards South Africa, the International Standards Organisation, or an authority accredited or recognised by the South African National Accreditation System with which the equipment or material or workmanship should comply.

11.5 Specifications where possible, be described in terms of performance required rather than in terms of descriptive characteristics for design.

11.6 Specifications may not create trade barriers in contract requirements in the forms of specifications, plans, drawings, designs, testing and test methods, packaging, marking or labelling of conformity certification.

11.7 Specifications may not make reference to any particular trade mark, name, patent, design, type, specific origin or producer unless there is no other sufficiently precise or intelligible way of describing the characteristics of the work, in which case such reference must be accompanied by the words "equivalent".

## **SECTION 11: ACQUISITION MANAGEMENT**

### **1. SYSTEM OF ACQUISITION MANAGEMENT**

1.1 The Accounting Officer shall establish, through operational procedures, an effective system of acquisition management in order to ensure:

1.1.1 Goods and services shall only be procured in accordance with authorised processes.

1.1.2 Expenditure on goods and services may only be incurred in terms of an approved budget and within the limits of the amounts appropriated for the different votes in an approved budget.

1.1.3 Threshold values of different procurement processes shall be complied with.

1.1.4 Bid documentation, evaluation and adjudication criteria, and general conditions of a contract, must be in accordance with applicable requirements, including:

1.1.4.1 The criteria prescribed in terms of the Preferential Procurement Policy Framework Act.

1.1.4.2 Any conditions of the Construction Industry Development Board as approved by the National Treasury, in the case of bids relating to construction.

1.1.5 Procurement guidelines issued by the National Treasury, including on the appointment of consultants, must be properly taken into account.

1.2 This supply chain management policy, except where provided otherwise in the policy, does not apply in respect of the procurement of goods and services contemplated in section 110(2) of the Act, including:

1.2.1 Water from the Department of Water Affairs or a public entity, another municipality or a municipal entity.

1.2.2 Electricity from Eskom or another public entity, another municipality or a municipal entity.

1.3 The following information must be made public wherever goods or services contemplated in section 110(2) of the Act are procured other than through the supply chain management system:

1.3.1 The kind of goods or services.

1.3.2 The name of the supplier.

## **2. COMPILATION OF LIST OF ACCREDITED PROSPECTIVE PROVIDERS**

2.1 The Accounting Officer through the SCM unit shall keep a list of accredited prospective providers to be used to procure goods and services. This list shall be used effectively to promote the objectives of the Preferential Procurement Regulations. The Accounting Officer shall through local commonly circulated newspapers, website and by any other means possible, invite prospective providers to apply for evaluation and listing as an accredited prospective provider with Letsemeng Local Municipality. The listing criteria for accredited prospective providers should also be specified. Providers should be allowed to submit applications for listing at any time during the course of a financial year. The new applications shall be accredited by the Chief Financial Officer in terms of the framework to be determined by his/her office. The list should be updated at least quarterly.

2.2 Once the list has been compiled per commodity and per type of service, quotations should be invited from such a list. The invitation of quotations from the compiled list of prospective providers per commodity should be done on rotational basis in such a manner that ongoing competition amongst providers is promoted, however ensuring value for money for the municipality.

2.3 Where no suitable providers are available from the list of prospective providers, quotations may be obtained from other possible providers. If it is not possible to obtain quotations as per section 3.4 of this policy, the reasons should be recorded and approved by the Accounting Officer or his/her delegate.

2.4 The prospective provider list should be reviewed annually and invitations for listing as a prospective provider be advertised annually. A provider can be added to the list of prospective providers anytime within the

financial year through the approval of the Accounting Officer or his/her delegate.

- 2.5 The Chief Financial Officer must prevent the listing of any prospective provider whose name appears on the National Treasury's database as person prohibited from doing business with the public sector.
- 2.6 When using the list of accredited prospective providers the Chief Financial Officer shall:
  - 2.6.1 Promote ongoing competition amongst providers, including by inviting providers to submit quotations on a rotation basis. However value for money be insured.
  - 2.6.2 Take all reasonable steps to ensure that the procurement of goods and services through written or verbal quotations or formal written price quotations is not abused.
  - 2.6.3 On a monthly basis be notified in writing of all written or verbal quotations and formal written price quotations accepted by an official acting in terms of a sub-delegation.
  - 2.6.4 Determine requirements for proper record keeping.

### **3. RANGE OF PROCUREMENT PROCESSES**

#### **3.1 GENERAL**

- 3.1.1 Goods and services may not deliberately be split into parts or items of a lesser value merely to avoid following the requirements of the policy. When determining transaction values, a requirement for goods or services consisting of different parts or items must as far as possible be treated and dealt with as a single transaction.
- 3.1.2 The procurement of goods and services through this policy is provided by way of:
  - 3.1.2.1 Two written price quotation for procurements of a transaction value of up to R2 000 (VAT included).

3.1.2.2 Three written price quotations for procurements of transaction value over R 2 001 up to R 30 000 (VAT included).

3.1.2.3 Three formal written price quotations for procurements of transaction value over R 30 000 up to R 200 000 (VAT included).

3.1.2.4 A competitive bidding process for:

☐ Procurements above a transaction value of above R 200 000 (VAT included).

☐ The procurement of long term contracts.

3.2 The Accounting Officer may, in writing lower, but not increase, the different threshold values specified in subparagraph 3.1.2 or direct that:

### **3.3 WRITTEN QUOTATIONS: UP TO AN ESTIMATED VALUE OF R 2 000 (VAT included)**

3.3.1 The Accounting Officer or delegate may procure goods and services to an estimated value of R 2 000 (vat included) by requesting quotations from different providers preferably from, but not limited to, providers whose names appear on the list of accredited prospective providers of the municipality, provided that if quotations are obtained from providers who are not listed, such providers must meet the listing criteria in the supply chain management policy to the extent feasible, providers must be requested to submit such quotations in writing. If it is not possible to obtain at least two quotations, the reasons must be recorded and reported quarterly to the Accounting Officer or another official designated by the Accounting Officer. The names of the potential suppliers and their quoted prices must be recorded. The order should always be placed against written confirmation from the selected supplier by way of quotation.

### **3.4 WRITTEN PRICE QUOTATIONS ABOVE R 2 000 TO R 30 000 (VAT INCLUDED)**

3.4.1 The Accounting Officer / delegate shall invite and accept written price quotations for goods and services from above R 2 001 (vat included) to R 30 000 (vat included) from as many suppliers as possible (refer to 3.1), that are registered on the list of accredited prospective suppliers. If it is not possible to obtain at least three written quotations, the reasons must

be recorded and approved by the Accounting Officer/Chief Financial Officer.

- 3.4.2 Quotations may be obtained from providers who are not listed only when no suitable providers for the required commodity or type of service are available from the list, provided that such providers meet the listing criteria in the supply chain management policy.
- 3.4.3 The CFO shall record the names of the potential providers and their quoted prizes or attach such quotation to the payment voucher.
- 3.4.4 When using the list of accredited prospective providers the Accounting Officer must promote ongoing competition amongst providers, including by inviting providers to submit quotations on a rotation basis. However value for money shall be insured.
- 3.4.5 That the Accounting Officer must take all reasonable steps to ensure that the procurement of goods and services through written quotations or formal written price quotations is not abused.
- 3.4.6 The Accounting Officer must determine the requirements for proper record keeping.

### **3.5 PROCUREMENT OF GOODS AND SERVICES EQUAL TO OR ABOVE R30 000 (vat included)**

- 3.5.1 The Accounting Officer must apply the prescripts of the Preferential Procurement Policy Framework Act, Act No 5 of 2000 and its associated regulations for all procurement equal to and above R30 000 (vat included) where possible, however, these prescripts may be applied for procurement with a value of less than R30 000 (vat included) if and when appropriate.
- 3.5.2 That all requirements in excess of R30 000 (VAT included ) that are to be procured by means of formal written price quotations must be advertised for at least seven days on the website and an official notice board of the municipality, where possible.
- 3.5.3 Where quotations have been invited via the official notice boards and website of the municipality, no additional quotations need to be obtained should the number of responses be less than three.

### **3.6 GENERAL PRECONDITIONS FOR CONSIDERATION OF WRITTEN QUOTATIONS OR BIDS**

3.6.1 A written quotation or bid may not be considered unless the provider who submitted the quotation or bid:

3.6.1.1 Has furnished that provider's:

☐ Full name

☐ Identification number or company or other registration number.

☐ Tax reference number and VAT registration number, if any.

3.6.1.2 The Accounting Officer shall ensure that, irrespective of the procurement process followed, no award above R30 000 (vat included) is given to a person whose tax matters have not been declared by the South African Revenue Service to be in order.

☐ Before making an award to a person the Accounting Officer must first check with SARS whether that person's tax matters are in order. A valid tax clearance certificate is sufficient in this regard. A copy of the tax clearance certificate may be accepted for awards not subjected to competitive bidding process.

☐ SARS can also be consulted as a secondary measure, and if SARS does not respond within 7 days such person's tax matters may be presumed to be in order.

3.6.1.3 Has indicated:

☐ Whether he or she is in the service of the state, or has been in the service of the state in the previous twelve months.

☐ If the provider is not a natural person, whether any of its directors, managers, principal shareholders or stakeholder is in the service of the state, or has been in the service of the state in the previous twelve months.

- ☐ Whether a spouse, or child or parent of the provider or of a director, manager, shareholder or stakeholder referred to in the subparagraph above is in the service of the state, or has been in the service of the state in the previous twelve months.
- ☐ If the provider is an advisor or consultant contracted with the municipality.

### **3.7 COMPETITIVE BIDDING PROCESS**

- 3.7.1 Goods or services above a transaction value of more than R 200 000.00 (VAT included) and long term contracts may only be procured through a competitive bidding process, subject to section 11, paragraph 1.2 of this policy.
- 3.7.2 No requirement for goods or services above an estimated transaction value of R 200 000.00 (VAT included), may deliberately be split into parts or items of lesser value merely for the sake of procuring the goods or services otherwise than through a competitive bidding process.
- 3.7.3 The Accounting Officer shall invite competitive bids for all the procurement per case above the estimated value of R 200 000.00 by means of a public advertisement except where provided for alternative method by this policy or SCM regulations.
- 3.7.4 A case is regarded as the consolidated requirement of related items (items of a common commodity group, e.g. grouping items of stationery together) that exists at a given point in time. It should cover the total quantities and estimated value (VAT included) of all the items concerned for complete service or supply.
- 3.7.5 The prescripts of the Preferential Procurement Policy Framework Act, Act No 5 of 2000 and its associated Regulations should be adhered to.
- 3.7.6 Bids should be advertised at least in a commonly circulated newspaper in the municipal area of jurisdiction and municipal website to ensure exposure to potential bidders. Bids may be advertised in the Government Tender Bulletin if and when determined by the Accounting Officer.
- 3.7.7 The 90/10 principle must be applied for contracts above R1 000 000 (vat included).



3.7.8 The 80/20 principle must be applied for contracts from R30 000 and to the value of R1 000 000 (vat included).

3.7.8.1 Preferential points will be determined by the Chief Financial Officer or bid specification committee in consultation with the Accounting Officer depending on the nature of procurement.

### **3.7.9 Process for competitive bidding**

3.7.9.1 The process for competitive bidding has eight (8) distinct stages:

- ☐ The compilation of bid documentation.
- ☐ The public invitation of bids.
- ☐ Site meetings or briefing sessions, if applicable.
- ☐ The handling of bids submitted in response to the public invitation.
- ☐ The evaluation of bids.
- ☐ The award of contracts.
- ☐ The administration of contracts.
- ☐ Proper record keeping.

### **3.7.10 Bid documentation for competitive bids**

3.7.10.1 The Accounting Officer must establish the criteria to which bid documentation for a competitive bidding process must comply.

3.7.10.2 The bid documentation shall be in accordance with:

- ☐ At least the general conditions of contract and supply chain management guidelines of National Treasury.

- ☐ The requirement of the Construction Industry Development Board as approved by National Treasury in the case of a bid relating to the construction, upgrading or refurbishment of buildings or infrastructure.
- ☐ Bid documentation include evaluation and adjudication criteria, including the criteria prescribed in terms of the PPPFA and its related Regulations.
- ☐ Bid documents will be sold at the amount to be determined by the Chief Financial Officer and approved by the Accounting of the municipality.

3.7.10.3 All bidders are compelled to declare any conflict of interest they may have in a specific bid.

3.7.10.4 If the value of the transaction is expected to exceed R10 million (VAT included) bidders have to furnish:

- ☐ If the bidder is required by law to prepare annual financial statements for auditing, their audited annual financial statements:
  - For the past three years, or
  - Since their establishment if established during the past three years.
- ☐ A certificate signed by the bidder certifying that the bidder has no undisputed commitments for municipal or other service providers in respect of which payment is overdue for more than 30 days.
- ☐ Particulars of any contracts awarded to the bidder by an organ of state during the past five years, including particulars of any material non-compliance or dispute concerning the execution of such contract.
- ☐ A statement indicating whether any portion of the goods or services are expected to be sourced from outside the Republic, and, if so, what portion and whether any portion of payment from the municipality is expected to be transferred out of the Republic.

3.7.10.5 All bidders are compelled to furnish their tax reference/registration number and identification numbers where applicable.

3.7.10.6 Bid disputes are to be settled by means of mutual consultation, mediation (with or without legal representation) or when unsuccessful, in a South African court of law.

3.7.10.7 Bids are advertised in at least a commonly circulated newspaper, at least 14 days before closure, except in urgent cases when bids may be advertised for such shorter period as the Accounting Officer may determine.

3.7.10.8 Furthermore, the following shall take place:

- ☐ All bids or offers must be submitted in writing on the prescribed bid documentation in a sealed marked envelope and must be deposited by the bidders themselves or their appointed representatives into the designated Bid Box by no later than the date and time stipulated in the bid documents.
- ☐ There shall always be a unique reference number and title or description for each bid advertised, in order to avoid any ambiguity that could result in respect thereof.
- ☐ The closing date and time of each bid invitation shall be chosen carefully or systematically.
- ☐ There shall be suitable and dedicated staff to handle all queries in respect of any bids.
- ☐ All prospective bidders shall be provided with similar bid information, with no bidder having competitive advantage over another.
- ☐ The policies, procedures and protocols published in the bid documentation must always be adhered to. Any subsequent changes thereto must be communicated to all bidders.
- ☐ There must be a formal line of communication to ensure consistency of communication.
- ☐ All communication regarding the bid should preferably be in writing, filed and recorded.

- ☐ The Letsemeng Local Municipality will ensure that the costs of obtaining bid documentation, the availability thereof and bid requirements do not disadvantage potential bidders in any way.
- ☐ If it is desirable to amend, alter or replace samples, specifications, copies or conditions subsequent to the closing date and time, and before notification of acceptance has been given, new bids shall be invited.
- ☐ The Chief Financial Officer in consultation with the senior manager concerned may, if necessary, communicate with bidders and prospective bidders prior to bid closing in order to supply additional information or to clarify vague points in the bid documents.

### **3.7.11 Public invitation for competitive bids**

3.7.11.1 Any invitation to prospective providers to submit bids shall be by means of a public advertisement in newspapers commonly circulating locally, the website of the municipality and any other appropriate ways (which may include an advertisement in the Government Tender Bulletin).

3.7.11.2 The information of a public advertisement must include the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case.

- ☐ A statement that bids may only be submitted on the bid documentation provided by the municipality.

3.7.11.3 The Accounting Officer may determine a closure date for the submission of bids which is less than the 30 or 14 days requirements, but only if such shorter period can be justified on the grounds of urgency or emergency or any exceptional case where it is impractical or impossible to follow the official procurement process.

3.7.11.4 Bids submitted must be sealed.

3.7.11.5 Where bids are requested in electronic format, such bids must be supplemented by sealed hard copies.

## **4. TWO-STAGE BIDDING PROCESS**

- 4.1. A two-stage bidding process is allowed for –
- (a) large complex projects;
  - (b) projects where it may be undesirable to prepare complete detailed technical specifications; or
  - (c) long term projects with a duration period exceeding three years.
- 4.2. In the first stage technical proposals on conceptual design or performance specifications should be invited, subject to technical as well as commercial clarifications and adjustments.
- 4.3 In the second stage final technical proposals and priced bids should be invited.

## **5. PROCEDURE FOR HANDLING, OPENING AND RECORDING OF BIDS**

- 5.1 The procurement section of the Letsemeng Local Municipality will be responsible for the receipt and opening of all bids.
- 5.2 The following procedures shall be followed:
- 5.2.1 Bids may be opened only in public (except when members of the public are not present at the time of opening the bid box).
  - 5.2.2 A bid box must be opened immediately after each bid has closed by at least one supply chain official of the Letsemeng Local Municipality and at least one member of the Bid Committee of the Letsemeng Local Municipality.
  - 5.2.3 Any bidder or member of the public has the right to request that the names of the bidders who submitted bids in time must be read out and, if practical, also each bidder's total bidding price. If the bid consist of more than one item, the official may at his discretion, decide on whether or not all of the items should be read out.
  - 5.2.4 All the bids that have been deposited into the bid box and opened must be recorded in a bid register.

- 5.2.5 All opened bids must be date stamped and individually initialled in ink on each material page by the abovementioned officers. Any errors must also be initialled as above.
- 5.2.6 Any deposits or securities received with bids must be handed to the financial officer for official acknowledgement of receipt thereof.
- 5.2.7 The name of the bidders and amount of the bid must be recorded in the bid register and handed to the responsible person, who will acknowledge in writing receipt thereof.
- 5.2.8 The bid register shall be locked in a safe place for subsequent bid evaluations.
- 5.2.9 All bid documentation via telegram, e-mail, telex, facsimile or other method other than the prescribed method before, on or after the closing date and time must be registered and should not be considered and returned unopened immediately
- 5.2.10 The specified date and/or time will be registered in the bid register and marked "late bid", these bids will be rejected and not be considered.
- 5.2.11 Bids received after the closing time shall not be considered and will be returned unopened immediately.
- 5.2.12 Bids results shall be displayed on official notice boards and municipal website.
- 5.2.13 Make the register available for public inspection.
- 5.2.14 Publish the entries in the register and the bid results on the website.

## **6. NEGOTIATIONS WITH PREFERRED BIDDERS**

- 6.1 The Accounting Officer may negotiate the final terms of a contract with bidders identified through a competitive bidding process as preferred bidders, provided that such negotiation:
  - 6.1.1 Does not allow any preferred bidder a second or unfair opportunity.

- 6.1.2 Is not to the detriment of other bidders.
- 6.1.3 Does not lead to a higher price than the bid as submitted.
- 6.1.4 Minutes of such negotiations must be kept for record purposes.

## **7. EVALUATION AND AWARDING OF BIDS**

- 7.1 Bids will be evaluated in terms of the point system as laid out in the Preferential Procurement Policy Framework Act, 2000 (Act No 5 of 2000)

## **8. APPROVAL OF BIDS NOT RECOMMENDED**

- 8.1 If a bid other than the one recommended in the normal course of implementing the supply chain management policy is approved, the Accounting Officer must, in writing notify the Auditor-General, the Provincial Treasury and the National Treasury of the reasons for deviating from such recommendation.
- 8.2 The above does not apply if a different bid was approved in order to rectify an irregularity.

## **9. UNSOLICITED BIDS**

- 9.1. In accordance with section 113 of the Act there is no obligation to consider unsolicited bids received outside a normal bidding process.
- 9.2. The accounting officer may decide in terms of section 113(2) of the Act to consider an unsolicited bid, only if:
  - 9.1.1 The product or service offered in terms of the bids is a unique innovative concept that will be exceptionally beneficial to or have exceptional cost advantages for the municipality.
  - 9.1.2 The person who made the bid is the sole provider of the product or service.

- 9.1.3 The reasons for not going through the normal biddings processes are found to be sound by the Accounting Officer.
- 9.1.4 The need for the product or service by the municipality has been established during its annual performance planning and budgeting process.
- 9.2 If the Accounting Officer decides to consider an unsolicited bid that complies with subparagraph 9.1 of this policy, the decision must be made public in accordance with section 21A of the Municipal Systems Act, together with:
  - 9.2.1 Reasons as to why the bid should not be open to other competitors.
  - 9.2.2 An explanation of the potential benefits if the unsolicited bid were accepted.
  - 9.2.3 An invitation to the public or other potential suppliers to submit their comments within 30 days of the notice.
- 9.3 All written comments received pursuant to subparagraph 9.2 including any responses from the unsolicited bidder, must be submitted to the National Treasury and the provincial treasury for comment.
- 9.4 The adjudication committee must consider the unsolicited bid and may award the bid or make a recommendation to the Accounting Officer, depending on its delegations.
- 9.5 A meeting of the adjudication committee to consider an unsolicited bid must be open to the public.
- 9.6 When considering the matter, the adjudication committee must take into account:
  - 9.6.1 Any comments submitted by the public.
  - 9.6.2 Any written comments and recommendations of the National Treasury or the provincial treasury.
- 9.7 If any recommendations of the National Treasury or provincial treasury are rejected or not followed, the Accounting Officer must submit to the Auditor-General, the provincial treasury and the National Treasury the reasons for rejecting or not following those recommendations.



- 9.8 Such submission must be made within seven days after the decision on the award of the unsolicited bid is taken, but no contract committing the municipality to the bid may be entered into or signed within 30 days of the submission.

## **10 NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME**

- 10.1 Before awarding a contract above R100 million which is subject to the National Industrial Participation Programme, the Accounting Officer must obtain clearance for the recommended bidder from the Department of Trade and Industry. If the Accounting Officer receives no response within 30 days of the request, this clearance of the recommended bidder as a precondition for the award of the contract falls away.

## **11 PROCUREMENT OF IT RELATED GOODS AND SERVICES**

- 11.1 Accounting Officer may seek specialised advice from SITA in acquisition of it related goods and services.
- 11.2 The Accounting Officer may request the State Information Technology Agency (SITA) to assist the municipality with the acquisition of IT related goods or services through a competitive bidding process.
- 11.3 The parties must enter into a written agreement to regulate the services rendered by and the payments to be made to SITA.
- 11.4 The Accounting Officer must notify SITA together with a motivation of the IT needs if:
- 11.4.1 The transaction value of IT related goods or services required in any financial year will exceed R50 million (VAT included).
- 11.4.2 The transaction value of a contract to be procured whether for one or more years exceeds R50 million (VAT included).
- 11.5 If SITA comments on the submission and the municipality disagrees with such comments, the comments and the reasons for rejecting or not following such comments must be submitted to the council, the National Treasury, the relevant provincial treasury and the Auditor-General.

## **12 PROCUREMENT OF GOODS AND SERVICES UNDER CONTRACTS SECURED BY OTHER ORGANS OF STATE**

12.1 The Accounting Officer may procure goods or services for the municipality under a contract secured by another organ of state, but only if:

12.1.1 The contract has been secured by that other organ of state by means of a competitive bidding process applicable to that organ of state.

12.1.2 That other organ of state and the provider have consented to such procurement in writing.

12.1.3 There is no reason to believe that such contract was not validly procured.

12.1.4 There are demonstrable discounts or benefits to do so.

## **13 APPOINTMENT OF CONSULTANTS**

13.1 The Accounting Officer may procure consulting services provided that any Treasury guidelines in respect of consulting services are taken into account when such procurements are made.

13.2 Consultancy services shall be procured through competitive bids if:

13.2.1 The value of the contract exceeds R 200 000.00 (VAT included).

13.2.2 The duration period of the contract exceeds one year.

13.3 In addition to any requirements prescribed by this policy for competitive bids, bidders must furnish particulars of:

13.3.1 All consultancy services provided to an organ of state in the last five years.

13.3.2 Any similar consultancy services provided to an organ of state in the last five years.

13.4 The Accounting Officer must ensure that copyright in any document produced, and the patent rights or ownership in any plant, machinery, thing,

system or process designed or devised, by a consultant in the course of the consultancy service is vested in the municipality.

- 13.5 The Accounting Officer may appoint the Panel of Consultants to assist the Municipality to evaluate the bids for the appointment of the Consultants in the case whereby the municipality does not have necessary capacity for appointment of such consultant.

## **14 DEVIATION FROM OFFICIAL PROCUREMENT PROCESSES**

- 14.1 The Accounting Officer may dispense with the official procurement processes established by the policy to procure any required goods or services through any convenient process, which may include direct negotiations, but only:

14.1.1 In an emergency.

14.1.2 If such goods and services are produced or available from a single provider only.

14.1.3 For the acquisition of special works of art or historical objectives where specifications are difficult to compile.

14.1.4 Acquisition of animals for zoos and/or nature and game reserves.

14.1.5 In any other exceptional case where it is impractical to follow the official procurement processes.

14.2 The Accounting Officer must record the reasons for any deviation and report them to the next meeting of the council and include as a note to the annual financial statements.

14.3 The above does not apply to the procurement of goods and services in respect of the following:

14.3.1 If the municipality contracts with another organ of state for:

14.3.1.1 The provision of goods or services to the municipality.

14.3.1.2 The provision of a municipal service or assistance in the provision of a municipal service.

14.3.1.3 The procurement of goods and services under a contract secured by that other organ of state, provided that the relevant supplier has agreed to such procurement.

14.4 The Accounting Officer may ratify any minor breaches of the procurement processes by an official or committee acting in terms of delegated powers or duties which are purely of a technical nature.

## **15 URGENT PROCUREMENT**

15.1 Irrespective of monetary value, an urgent procurement process will only apply where early delivery is of critical importance and the utilisation of the standard procurement process is either impossible, or impractical.

## **16 EMERGENCY PROCUREMENT**

16.1 Irrespective of monetary value, an emergency procurement process will only apply in serious, unexpected and potentially dangerous circumstances which require immediate rectification:

16.1.1 In the event of a threat or interruption in the municipality's ability to execute its mandate.

16.1.2 In the event of an immediate threat to the environment or human safety.

## **17 CONTRACTS AND CONTRACT MANAGEMENT**

17.1 A contract or agreement procured through the supply chain management system of a municipality shall:

17.1.1 Be in writing.

17.1.2 Stipulate the terms and conditions of the contract or agreement, which must include provisions providing for:

17.1.2.1 The termination of the contract or agreement in the case of non- or underperformance.

17.1.2.2 Dispute resolution mechanisms to settle disputes between the parties.

17.1.2.3 Any other matters that may be prescribed.

17.2 The Accounting Officer shall:

17.2.1 Take all reasonable steps to ensure that a contract or agreement procured through the supply chain management policy of the municipality is properly enforced.

17.2.2 Monitor on a monthly basis the performance of the contractor under the contract or agreement.

17.2.3 Establish capacity in the administration of the municipality:

17.2.3.1 To assist the Accounting Officer in carrying out the duties set out in the above sub-paragraphs.

17.2.3.2 To oversee the day-to-day management of the contract or agreement.

17.2.4 Regularly report to the Council of the municipality on the management of the contract or agreement and the performance of the contractor.

17.3 A contract or agreement procured through the supply chain management policy of the municipality may be amended by the parties, but only after:

17.3.1 The reasons for the proposed amendment have been tabled in the Council of the municipality.

17.3.2 The local community:

17.3.2.1 Has been given reasonable notice of the intention to amend the contract or agreement.

17.3.2.2 Has been invited to submit representations to the municipality.

## **17.4 CONTRACTS HAVING FUTURE BUDGETARY IMPLICATIONS**

17.4.1 The municipality may enter into a contract which will impose financial obligations on the municipality beyond a financial year, but if the contract will impose financial obligations of the municipality beyond the three years covered in the annual budget for that financial year, it may do so only if:

17.4.1.1 The Municipal Manager, at least 60 days before the meeting of the Municipal Council at which the contract is to be approved:

17.4.1.1.1 In accordance with Section 21(a) of the Municipal Systems Act:

17.4.1.1.1.1 Made public the draft contract and an information statement summarising the municipality's obligation in terms of the proposed contract.

17.4.1.1.1.2 Invited the local community and other interested persons to submit to the municipality comments or representations in respect of the proposed contract.

17.4.1.1.2 Has solicited the views and recommendations of:

17.4.1.1.2.1 The National Treasury and the Provincial Treasury.

17.4.1.1.2.2 The national department responsible for local government.

17.4.1.1.2.3 The national department, responsible for the provision of water, sanitation, electricity, or any other service as may be prescribed.

17.4.1.2 The Municipal Council has taken into account:

17.4.1.2.1 The municipality's projected financial obligations in terms of the proposed contract for each financial year covered by the contract.

17.4.1.2.2 The impact of those financial obligations on the municipality's future municipal tariffs and revenue.

17.4.1.2.3 Any comments or representations on the proposed contract received from the local community and other interested persons.

17.4.1.2.4 Any written views and recommendations on the proposed contract by the National Treasury, the Provincial Treasury, the national department responsible for local government and any national department referred to in paragraph 17.4.1.1.

17.4.1.3 The Municipal Council has adopted a resolution in which:

17.4.1.3.1 It determines that the municipality will secure a significant capital investment or will derive a significant financial economic or financial benefit from the contract.

17.4.1.3.2 It approves the entire contract exactly as it is to be executed.

17.4.1.3.3 It authorises the municipal manager to sign the contract on behalf of the municipality.

17.4.2 All contracts referred to in the paragraph above and all other contracts that impose a financial obligation on a municipality:

17.4.2.1 Must be made available in their entirety to the Municipal Council.

17.4.2.2 May not be withheld from public scrutiny except as provided for in terms of the Promotion of Access to Information Act, 2000 (Act No 2 of 2000).

## **17.5 CONTRACTS PROVIDING FOR COMPENSATION BASED ON TURNOVER**

17.5.1 If a service provider acts on behalf of a municipality to provide any service or act as a collector of fees, service charges or taxes and the compensation payable to the service provider is fixed as an agreed percentage of turnover for the service or the amount collected the contract between the services and the municipality must stipulate:

17.5.1.1 A cap or percentage on the compensation payable to the service provider.

17.5.1.2 That such compensation must be performance based.

## **17.6 OBJECTIONS AND COMPLAINTS**

17.6.1 Persons aggrieved by decisions or actions taken in the implementation of this supply chain management system, may lodge within 14 days of the decision or action, a written objection or complaint against the decision or action.

## **17.7 RESOLUTION OF DISPUTES, OBJECTIONS, COMPLAINTS AND QUERIES**

17.7.1 The Accounting Officer must appoint an independent and impartial person, not directly involved in the supply chain management processes:

17.7.1.1 To assist in the resolution of disputes between the municipality and other persons regarding:

17.7.1.1.1 Any decisions or actions taken in the implementation of the supply chain management system.

17.7.1.1.2 Any matter arising from a contract awarded in the course of the supply chain management system.

17.7.1.2 To deal with objections, complaints or queries regarding any such decisions or actions or any matters arising from such contract.

17.7.2 The Accounting Officer, or another official designated by the Accounting Officer, is responsible for assisting the appointed person to perform his or her functions effectively.

17.7.3 The person appointed must:

17.7.3.1 Strive to resolve promptly all disputes, objections, complaints or queries received.

17.7.3.2 Submit monthly reports to the Accounting Officer on all disputes, objections complaint or queries received, attended to or resolved.



17.7.4 A dispute, objection, complaint or query may be referred to the relevant provincial treasury if:

17.7.4.1 The dispute, objection, complaint or query is not resolved within 60 days.

17.7.4.2 No response is forthcoming within 60 days.

17.7.5 If the Provincial Treasury does not or cannot resolve the matter, the dispute, objection, complaint or query may be referred to the National Treasury for resolution.

17.7.6 This paragraph must not be read as affecting a person's rights to approach a court at any time.

## **18 PROCUREMENT OF PUBLIC-PRIVATE PARTNERSHIPS**

### **18.1 PUBLIC-PRIVATE PARTNERSHIP AGREEMENTS**

18.1.1 The Accounting Officer shall solicit the views and recommendations of the National Treasury and the Provincial Treasury on:

18.1.1.1 The proposed bid documentation at least 30 days before bids are publicly invited.

18.1.1.2 The evaluation of the bids received and of any preferred bidder at least 30 days before any award is made.

18.1.2 An award of a public-private partnership agreement:

18.1.2.1 May be made only after the process set out for PPPs of this policy has been completed.

18.1.2.2 Is subject to compliance with Section 33 of the Act (contracts having future budgeting implications)

18.1.3 When complying with the PPP portion of this policy, the municipality must specifically solicit the views and recommendations of the National Treasury on:

18.1.3.1 The proposed terms and conditions of the draft public-private partnership agreement.

18.1.3.2 The municipality's plan for the effective management of the agreement after its conclusion.

18.1.3.3 The preferred bidder's:

18.1.3.3.1 Competency to enter into the public-private partnership agreement.

18.1.3.3.2 Capacity to comply with his or her obligations in terms of the public-private partnership agreement.

## **18.2 BASIC REQUIREMENTS TO WHICH PUBLIC-PRIVATE PARTNERSHIP AGREEMENTS MUST COMPLY**

18.2.1 A public-private partnership agreement between the municipality and a private party must:

18.2.1.1 Provide value for money to the municipality.

18.2.1.2 Be affordable for the municipality.

18.2.1.3 Describe in specific terms the nature of the private party's role in the public-private partnership.

18.2.1.4 Confer effective powers to the municipality:

18.2.1.4.1 To monitor implementation of, and to assess the private party's performance under, the agreement.

18.2.1.4.2 To manage and enforce the agreement.

18.2.1.5 Impose financial management duties on the private party, including transparent processes relating to internal financial control, budgeting, accountability and reporting.

18.2.1.6 Provide for the termination of the agreement if the private party:

18.2.1.6.1 Fails to comply with terms or conditions of the agreement.

18.2.1.6.2 Deliberately provides incorrect or misleading information to the municipality.

18.2.1.7 Restrain the private party, for the full period of the agreement, from offering otherwise than in accordance with the agreement an employment, consultancy or other contract to a person:

18.2.1.7.1 Who is an official of the municipality under the sole or shared control of the municipality.

18.2.1.7.2 Who was such an official at any time during a period of one year before the offer is made.

18.2.1.8 Restrain the private party, for a period of three years, from offering an employment, consultancy or other contract to an employee of the municipality directly involved in the negotiation of the agreement.

18.2.1.9 Comply with section 116(1) of the Act.

18.2.2 Any municipal employee participating in the negotiation of the public-private partnership agreement may not be employed by the private party in the public-private partnership for a period of three years.

### **18.3 SIGNING OF PUBLIC-PRIVATE PARTNERSHIP AGREEMENTS**

18.3.1 Only the Accounting Officer may sign a public-private partnership agreement on behalf of the municipality.

18.3.2 The Accounting Officer may not sign a public-private partnership agreement unless Section 33 of the Act has been complied with.

### **18.4 PROJECT OFFICERS**

18.4.1 Prior to notifying the National Treasury the Accounting Officer must appoint a person with appropriate skills and experience, either from within or

outside the municipality, as the project officer for the public-private partnership.

18.4.2 The project officer is responsible for performing:

18.4.2.1 The duties set out in Section 116(2)(c)(i) and (ii) of the Act.

18.4.2.2 Any other duties or powers delegated by the Accounting Officer to the project officer in terms of Section 79 of the Act.

## **18.5 RESPONSIBILITIES OF ACCOUNTING OFFICER**

18.5.1 The Accounting Officer must, in addition to complying with Section 116(2) of the Act, take all reasonable steps to ensure:

18.5.1.1 That the outsourced activity is effectively and efficiently carried out in accordance with the agreement.

18.5.1.2 That municipal property, which is placed under the control of the private party in terms of the agreement, is appropriately protected against forfeiture, theft, loss, wastage and misuse.

18.5.1.3 That the municipality has contract management and monitoring capacity.

## **18.6 AMENDMENT OF PUBLIC-PRIVATE PARTNERSHIP AGREEMENTS**

18.6.1 A public-private partnership agreement may be amended by the parties provided:

18.6.1.1 Section 116(3) of the Act has been complied with.

18.6.1.2 The amendment is consistent with the basic essentials of public-private partnership agreements.

18.6.2 At least 60 days before a public-private partnership agreement is amended, the Accounting Officer must solicit the views and recommendations of the National Treasury and the Provincial Treasury on the reasons for the amendment. The period may be shortened if the National Treasury and relevant Provincial Treasury respond earlier.

## **19 PROCUREMENT OF BANKING SERVICES**

- 19.1 Banking services must be procured through competitive bidding process, must be consistent with section 7 of the MFMA and may not be for a period of more than five years at a time.
- 19.2 The process for procuring a contract for banking services shall commence at least nine months before the end of an existing contract.
- 19.3 The closure date for the submission of bids may not be less than 60 days from the date on which the advertisement is placed in a newspaper. Bids must be restricted to banks registered in terms of the Banks Act, 1990 (Act No 94 of 1990).
- 19.4 The procedure for the invitation of competitive bids, is as follows:
- (a) Any invitation to prospective providers to submit bids must be by means of a public advertisement in newspapers commonly circulating locally, the website of the Letsemeng Local municipality or any other appropriate ways (which may include an advertisement in the Government Tender Bulletin); and
  - (b) the information contained in a public advertisement, must include –
    - (i) the closure date for the submission of bids, which may not be less than 30 days in the case of transactions over R10 million (VAT included), or which are of a long term nature, or 14 days in any other case, from the date on which the advertisement is placed in a newspaper, subject to subparagraph (2) of this policy;
    - (ii) A statement that bids may only be submitted on the bid documentation provided by the municipality ;and
    - (ii) date, time and venue of any proposed site meetings or briefing sessions.;

## **SECTION 12: LOGISTICS MANAGEMENT**

### **1 CONTRACT MANAGEMENT**

#### **1.1 MANAGING THE CONTRACT**

- 1.1.1 The Accounting Officer shall take all reasonable steps to ensure that a contract or agreement procured through the SCM policy of Letsemeng Local Municipality is properly enforced.
- 1.1.2 Both the user department and the SCM unit have a responsibility towards managing a contract.
- 1.1.3 The nature of the responsibility will determine who manages the specific contractual aspect.

#### **1.2 CONTRACT MONITORING**

- 1.2.1 The Accounting Officer shall monitor on a monthly basis the performance of the contractor under the contract or agreement.
- 1.2.2 The Accounting officer shall regularly report to the Council on the management of the contract or agreement and the performance of the contractor.
- 1.2.3 Constant monitoring is essential to ensure that contractual obligations are met and that contracts run with as little disruption as possible.
- 1.2.4 The SCM Unit is responsible for notifying the user department timely of term contract expiry that will allow the user department sufficient time to decide whether to renew the contract.
- 1.2.5 The user department must ensure that the contractor performs according to the stipulations of the contract in delivering the goods or services on time, in the correct quantity and to the required standard.
- 1.2.6 Regular meetings with contractors to discuss progress, deliverables, foreseeable problems and/or amendments must be held during the contract period.

### **1.3 TRADEMARK/BRAND NAME**

- 1.3.1 If a bid is accepted for a particular trademark/brand name, that trademark/brand name must appear on the product and substitute products must not be accepted.

### **1.4 NON-CONTRACTUAL PURCHASES**

- 1.4.1 Small quantities of supplies or minor services may be procured outside of the contract in the following circumstances:

- 1.4.1.1 In cases of emergency; or

- 1.4.1.2 When the contractor's point of supply is not situated at or near the place where the supply or service is required; or

- 1.4.1.3 If the contractor's supplies or services are not readily available.

- 1.4.2 Purchases outside the contract must be restricted to requirements that are absolutely necessary to satisfy the immediate requirement and the action must always be justifiable against the contract conditions.

- 1.4.3 Acquisitioning procedures must in all instances be followed when procuring outside of existing contracts.

### **1.5 OVER-/UNDER DELIVERIES**

- 1.5.1 Over- and under-deliveries may be accepted in accordance with the Accounting Officer's delegated powers.

### **1.6 UNSATISFACTORY PERFORMANCE**

- 1.6.1 The Accounting Officer shall continuously communicate unsatisfactory performance to contractors in writing compelling the contractor to perform according to the contract and thus to rectify or to restrain from unacceptable actions.

## **1.7 LATE DELIVERIES**

- 1.7.1 The GCC states that delivery of supplies shall be made in accordance with the conditions specified in the contract.
- 1.7.2 Before action due to late delivery is instituted against a contractor who has offered a firm delivery period, the circumstances under which the late delivery took place must be investigated. There may be valid reasons for the late delivery, which are beyond the control of the contractor, in which case action cannot be taken summarily against the contractor.
- 1.7.3 On the other hand, contractors must be allowed to delay deliveries repeatedly even where non-firm delivery periods have been offered. Wherever possible, firm delivery periods must be insisted upon before a bid is accepted, as well as when the issue of late deliveries crops up during the period of a contract.



## **SECTION 13: DISPOSAL MANAGEMENT**

### **1. SYSTEM OF DISPOSAL MANAGEMENT**

19.5 The disposal management procedure manual shall provide for an effective system for the disposal or letting of assets no longer needed, including unserviceable, redundant or obsolete assets, subject to section 14 of the MFMA.

19.6 Disposal is managed by the following two (2) sub-processes:

19.6.1 Disposal planning.

19.6.2 Determining methods of disposal.

## **20 DISPOSAL PLANNING**

### **20.1 OBSOLESCENCE PLANNING**

20.1.1 Action to eliminate the obsolete item need only be taken when the stock level threatens the availability of the equipment.

20.1.2 For the period leading up to upgrades, in-service equipment will be managed to only maintain current capability and availability.

20.1.3 Anticipating and solving obsolescence problems is considerably cheaper than waiting until later when major equipment redesign is called for and equipment availability is threatened. Requiring higher shorter-term costs, a policy of spend to save needs therefore to be adopted.

20.1.4 A proactive approach to the identification of potential obsolescence risks is necessary. Once identified, each obsolescence risk needs to be assessed to determine its criticality.

20.1.5 What is crucial to the assessment of obsolescence risk is not the time at which a unit or component goes obsolete, but when as a result of the obsolescence, equipment availability will be threatened, the factors are:

20.1.5.1 Criticality point

20.1.5.1.1 This is the point in time at which availability of the equipment is threatened by lack of parts and/or spares.

#### 20.1.5.2 Cost impact

20.1.5.2.1 This is determined by the expected costs that would be incurred to solve the problem if no action is taken until the time of occurrence of the obsolescence.

#### 20.1.5.3 Prioritisation

20.1.5.3.1 Prioritise all current obsolescence risk by order of the point of criticality and in order of cost. The most critical will then need to be considered further for resolution of the specific problems.

20.1.6 For each obsolescence risk, it needs to be decided what technology option is to be adopted, the support which is to be provided, the contracting arrangements needed, the maintenance policy which is implied and the identification of any consequential risks.

20.1.7 Whatever techniques are chosen for managing obsolescence, solid configuration management and well disciplined change control procedures must be employed in order to ensure that a correct picture is available of the current equipment situation and of all the configuration options which are available for implementation.

## 20.2 RENEWAL PLANNING

20.2.1 The asset renewal-planning phase involves the assessment of existing assets and planned acquisitions against IDP requirements.

20.2.2 Proposals for new assets must be justified by a thorough evaluation of all IDP options.

20.2.3 The municipality should develop IDP strategies which:

20.2.3.1 Define the scope, standard and level of programme services to be delivered.

20.2.3.2 Assess the methods of delivering these services.

20.2.3.3 Determine, where appropriate, methods of containing the demand for the services.

20.2.3.4 Identify the resources including assets, required to deliver the services. Service options need to be evaluated on financial, economic, social and environmental grounds.

20.2.4 The evaluation of existing assets determines whether their performance is adequate to support the selected service delivery strategy. This process presupposes that appropriate condition and performance standards are set for assets. Asset performance is to be reviewed regularly against best practice benchmarks to identify assets that are under-performing, or costly to own or operate.

20.2.5 The evaluation should reveal assets that provide more than their required capacity, or are surplus to requirements. Assets that have been inadequately maintained may pose potential safety or health risks, disrupt essential services, or incur unforeseen expenditure for the correction of defects. Replacement may be a possible option in this case.

20.2.6 All assets currently being used to deliver the service under consideration need to be identified and registered. How effectively these assets support service requirements also have to be determined. As part of this process, assets should be evaluated in terms of their:

20.2.6.1 Physical condition

20.2.6.1.1 Is the asset adequately maintained?

20.2.6.1.2 Are major replacements or refurbishments likely to be required during the planning period?

20.2.6.2 Functionality

20.2.6.2.1 How well suited is the asset to the activities and functions it supports?

20.2.6.3 Utilisation

20.2.6.3.1 How intensively is the asset used?

20.2.6.3.2 Could it be used more productively or accommodating additional functions?

20.2.6.4 Financial performance

20.2.6.4.1 Are the assets' operating costs similar to those for other comparable assets?

20.2.7 The assessment of existing assets must include those assets in the process of being acquired or that are committed. The result of evaluating existing and anticipated new assets is a list of assets available or expected to be available.

20.2.8 The planning process should match the prospective demand for assets with the current asset supply to develop the renewal strategy.

## **20.3 UNSERVICEABLE/OBSOLETE/REDUNDANT ITEMS**

20.3.1 During stock take, the stocktaking team must ensure that the following actions are taken:

20.3.1.1 Check the quantity and condition of inventory items to establish whether it is considered to be in a reasonable state of serviceability.

20.3.1.2 Check for items that have been issued and are not being used.

20.3.1.3 Check whether issued items are being used for the purpose intended.

20.3.1.4 Check for unserviceable, repairable, obsolete or redundant items.

20.3.2 After completion of the stock take, a stocktaking report must be compiled and submitted to the supply chain manager. This will form the basis of the following lists:

20.3.2.1 Unserviceable items.

20.3.2.2 Obsolete items.

20.3.2.3 Redundant items.

## **20.4 DISPOSAL STRATEGY**

20.4.1 Effective asset disposal frameworks incorporate consideration of alternatives for the disposal of surplus, obsolete, under-performing or unserviceable assets. Alternatives should be evaluated in cost-benefit terms.

20.4.2 A disposal strategy establishes the rationale for the anticipated time and method of and the expected proceeds on disposal. The strategy is reviewed and refined, if necessary, prior to disposal, to take account of the market and physical condition of the assets.

20.4.3 Under-utilised and under-performing assets are identified as part of a regular, systematic review process.

20.4.4 The reasons for under-utilisation or poor performance are critically examined and corrective action taken to remedy the situation or a disposal decision is made.

20.4.5 Analysis of disposal methods has regard to potential market values or other intrinsic values such as the location and volume of assets to be disposed of, the ability to support other programmes, environmental implications and regular evaluation of disposal performance.

20.4.6 Effective management of the disposal process will minimise holdings of surplus and under-performing assets and will maximise the return of such assets.

## **20.5 THE DISPOSAL DECISION**

20.5.1 The disposal decision cannot be taken in isolation. Asset disposal decisions are to be made within an integrated, service and financial planning framework. While disposal is viewed as the final stage in asset management it is common for disposal action to trigger the acquisition of a new asset or a replacement asset.

20.5.2 The asset register is a starting point for this analysis as it records the useful lives of assets and is able to provide an indication of the timing of major replacements in the normal course of business.

20.5.3 Other important documents necessary to take a disposal decision are:

20.5.3.1 The obsolescence plan.

20.5.3.2 The renewal plan.

20.5.3.3 The list of unserviceable items.

20.5.3.4 The list of obsolete items.

20.5.3.5 The list of redundant items.

20.5.4 The following policy guidelines are provided to help the municipality to dispose of their assets in an accountable manner. The municipality should:

20.5.4.1 Establish and maintain an asset information system, which records all relevant information on assets in disposal management.

20.5.4.2 Prepare and evaluate proper costing to support the selection of the most cost-effective disposal method.

20.5.4.3 Identify those areas most susceptible to fraud or risks and introduce appropriate preventive measures.

20.5.4.4 Identify and communicate the preferred arrangements for disposals to relevant staff.

20.5.4.5 Engage experts to develop the terms of contract and to assist in preparing the contract to minimise the exposure to risk.

20.5.4.6 Provide clear instructions to the official engaged to undertake the disposal.

- 20.5.4.7 Monitor and evaluate disposal performance regularly for achievement, fair dealing, cost-effective choice of disposal methods and for compliance with the municipality's disposal policies and objectives.

## **20.6 ALTERNATIVES TO DISPOSAL**

- 20.6.1 Where assets have been identified as under-performing or no longer functionally suited to programme delivery needs, thought should be given to the following possible alternatives to disposal:

- 20.6.1.1 A factor to consider is whether utilisation can be increased by adapting the asset to another function or using it in another programme.

- 20.6.1.2 Refurbishment or an upgrade of the asset may also be viable. The cost and benefit of such alternatives should be included in the disposal strategy.

## **21 DETERMINING METHODS OF DISPOSAL**

- 21.1 The primary methods of disposal include sale by public auction or bidding, sale by private treaty, trade-in, write-off and letting.

- 21.2 Whatever method is chosen, it is important, not least for accountability and transparency, that a properly costed evaluation of relevant disposal option is prepared. This should take into account both the costs associated with each method of disposal and the likely benefits (including possible proceeds).

- 21.3 Before deciding on a particular disposal method, the following matters should be considered:

- 21.3.1 The nature of the asset.

- 21.3.2 Its potential market value.

- 21.3.3 Other intrinsic value of the asset.

- 21.3.4 Its location.

- 21.3.5 Its volume.

21.3.6 Its trade-in value.

21.3.7 Its ability to support other programmes.

21.3.8 Environmental considerations.

21.3.9 Market conditions.

21.3.10 The asset's lifetime.

21.3.11 Professional valuations play an important role in asset disposal. It can help managers to select the most appropriate selling method. It also helps to set realistic expectations for the sale. If it is required, valuations must be obtained from experienced agents who have knowledge of the type of asset(s) for sale and current market trends.

## **21.4 DISPOSAL OF CAPITAL ASSETS**

21.4.1 The municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services.

21.4.2 The municipality may transfer ownership or otherwise dispose of a capital asset other than one mentioned above, only after the Municipal Council, in a meeting open to the public:

21.4.2.1 Has decided on reasonable grounds that the asset is not needed to provide the minimum level of basic municipal services.

21.4.2.2 Has considered the fair market value of the asset and the economic and community value to be received in exchange for the asset.

21.4.3 A decision by the Municipal Council that a specific capital asset is not needed to provide the minimum level of basic municipal services, may not be reversed by the municipality after that asset has been sold, transferred or otherwise disposed of.



21.4.4 Any transfer of ownership of a capital asset in terms of par 3.4.2 must be fair, equitable, transparent, competitive and consistent with the supply chain management policy of the municipality.

21.4.5 This section does not apply to the transfer of a capital asset to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework.

## **21.5 DISPOSAL OF IMMOVABLE PROPERTY**

21.5.1 Immovable property may be sold only at market related prices except when the public interest or the plight of the poor demands otherwise.

21.5.2 Immovable property is let at market related rates except when the public interest or the plight of the poor demands otherwise.

21.5.3 All fees, charges, rates, tariffs, scales of fees or other charges relating to the letting of immovable property are annually reviewed.

## **21.6 DISPOSAL OF FIREARMS**

21.6.1 In the case of the disposal of firearms, the National Conventional Arms Control Committee has to approve any sale or donation of firearms to any person or institution within or outside the Republic.

## **21.7 DISPOSAL OF MOVABLE ASSETS**

21.7.1 Transferring the asset to another organ of state in terms of a provision of the Act enabling the transfer of assets.

21.7.2 Transferring the asset to another organ of state at market related value or when appropriate, free of charge.

21.7.3 Movable assets may be sold to either by way of written price quotations, competitive bids and auction or at market related prices, whichever is the most advantageous to the municipality. Bid documents must comply with the criteria prescribed in terms of the PPPFA (Act No 5 of 2000).

21.7.4 Ensure that all immovable property is let at market related rates.

21.7.5 In cases where assets are traded in for other assets, the highest possible trade-in price is to be negotiated.

## **21.8 COMPUTER EQUIPMENT**

21.8.1 In the case of the free disposal of computer equipment, the provincial department of education must first be approached to indicate within 30 days whether any of the local schools are interested in the equipment.

## **21.9 OTHER DISPOSAL MECHANISMS**

21.9.1 Other appropriate ways of disposal may include:

21.9.1.1 Donations.

21.9.1.2 Sale to staff.

21.9.1.3 Sell as scrap.

21.9.1.4 Recycling.

21.9.1.5 Cannibalisation.

21.9.1.6 Destroying such assets.

## **22 DISPOSAL REGISTER**

22.1 All the steps in the disposal process must be recorded in the disposal register. The disposal manager keeps this register. Such a register must address the following aspects:

22.1.1 Date on which disposal was requested.

22.1.2 Sequence serial number of convening.

22.1.3 Date of physical inspection by the Disposal Committee.

22.1.4 Date that the disposal certificate was submitted to the Accounting Officer.

22.1.5 The date on which confirmation was given by the Accounting Officer.

22.1.6 Actual date of physical disposal of item in terms of confirmation instruction received.

22.1.7 Date confirming that disposal instructions were adhered to.

## **23 GENERAL ISSUES**

23.1 At the very least, a comparison of the actual timing and proceed on disposal should be made with the standard established for the class in the municipality's accounting policies. This is a means of confirming that the useful life, estimated proceeds, and therefore the depreciation rates used are valid. It also provides the opportunity to identify causes where assets are routinely not meeting the service life expectations or their estimated proceeds on disposal.

23.2 In addition to undertaking the cost-benefit analysis of the methods of disposal, supply chain managers are required to compare actual life at disposal with the expected useful life and to explain significant variations.

## **SECTION 14: REPORTING**

### **1 GENERAL REPORTING OBLIGATION**

- 1.1 The Accounting Officer shall inform the Provincial Treasury, in writing of:
  - 1.1.1 Any failure by the Council of the municipality to adopt or implement a supply chain management policy.
  - 1.1.2 Any non-compliance by a political structure or office-bearer of the municipality with this policy.
- 1.2 The Accounting Officer of the municipality shall submit to the National Treasury, the Provincial Treasury, the department for local government in the province or the Auditor-General such information, returns, documents, explanations and motivations as may be prescribed or as may be required.
- 1.3 If the Accounting Officer is unable to comply with any of the responsibilities in terms of this Act, he or she must promptly report the inability, together with reasons, to the Mayor and the Provincial Treasury.

### **2 INFORMATION TO BE PLACED ON WEBSITES OF MUNICIPALITIES**

- 2.1 The Accounting Officer shall place on the website the following documents of the municipality:
  - 2.1.1 All service delivery agreements.
  - 2.1.2 All supply chain management contracts above R100 000 (vat included).
  - 2.1.3 An information statement containing a list of assets over R30 000 (vat included) that has been disposed of during the previous quarter, where possible.
  - 2.1.4 Contract to which Subsection (1) of Section 33 of the Act apply, subject to Subsection (3) of that Section.

- 2.1.5 Public-private partnership agreements referred to in Section 120.
- 2.2 A document referred to in the paragraph above must be placed on the website not later than five days after its tabling in the Council or on the date of which it must be made public, whichever occurs first.

### **3 MONTHLY REPORTING**

- 3.1 The Municipality shall report monthly to the National Treasury and Municipal Council (where prescribed by law) on the following aspects:
  - 3.1.1 Implementation of Supply Chain Management Policy.
  - 3.1.2 Awards of bids for more than R 100 00.00 (vat included) reported to National Treasury.
  - 3.1.3 Deviation processes followed, non-utilisation of provider list, salami slicing, maverick spend, getting less quotes than prescribed.
  - 3.1.4 Urgency/emergency procurement processes followed.
  - 3.1.5 Process disputes.
  - 3.1.6 Late bids admitted and approved.
  - 3.1.7 Instances of fraud or corruption.
  - 3.1.8 Value for money.
  - 3.1.9 Unsolicited bids considered.
  - 3.1.10 Approval of tenders not recommended.
  - 3.1.11 Percentages of total spending towards Preferential Points (HDI, SMME's, Local content etc)

- 3.1.12 The Accounting Officer must on a monthly basis report to the Council on the management of contracts or agreements and the performance of the relevant contractors.

## **4 QUARTERLY REPORTING**

- 4.1 The Accounting Officer shall within 10 days after the end of each quarter submit implementation reports on SCM for consideration by the Mayor.

## **5 ANNUAL REPORTING**

- 5.1 The Accounting Officer shall at least annually within 30 days of the end of each financial year submit reports on the implementation of the SCM policy to the council and the Provincial Treasury.

### **5.2 Awards to close family members of persons in the service of the state**

- 5.2.1 The notes to the annual financial statements must disclose particulars of any award of more than R2 000 to a person, who is a spouse, child or parent of a person in the service of the sate, or has been in the service of the sate in the previous twelve months, including:

5.2.1.1 The name of that person.

5.2.1.2 The capacity in which that person is in the service of the sate.

5.2.1.3 The amount of the award.

## **SECTION 15: PERFORMANCE MANAGEMENT**

### **1 INTERNAL MONITORING**

- 1.1 The supply chain performance management shall provide for an effective internal monitoring system in order to determine, on the basis of a retrospective analysis, whether the authorised supply chain management processes are being followed and whether the desired objectives are being achieved.

### **2 ISSUES TO BE REVIEWED**

- 2.1 Achievement of goals within the SCM framework, particularly those associated with the Preferential Procurement Policy Framework Act, the Integrated Development Plan and Broad-based Black Economic Empowerment Act and Strategy.
- 2.2 Compliance with norms and standards.
- 2.3 Savings generated.
- 2.4 Stores efficiency.
- 2.5 Cost variance per item.
- 2.6 Contract breach, etc.
- 2.7 Cost efficiency of procurement process (i.e. the cost of the process itself).
- 2.8 Whether supply chain objectives are consistent with Government's broader policy focus.
- 2.9 That the material construction standards become increasingly aligned with those standards that support international best practice.
- 2.10 That the principles of cooperative governance as expounded in the constitution are observed.

- 2.11 That the reduction of regional economic disparities is promoted.
- 2.12 At completion stage of each project, an assessment of the supplier/service provider (including consultants where applicable) be undertaken and that this assessment should be available for future reference. Accounting Officers should take cognisance of the fact that when suppliers do not perform according to their contractual obligations and the Accounting Officer does not address his/her in this regard during the execution of the contract, such non-performance cannot be deemed as sound reason for passing over the bid of such supplier when adjudicating future bids.

### **3 DIMENSIONS OF PERFORMANCE**

#### **3.1 EQUITY**

- 3.1.1 Measures of equity would monitor the extent to which the municipality has achieved and been able to maintain an equitable supply of comparable services across race groups, regions, and urban and rural areas. It would require the municipality to undertake a benefit incidence analysis aimed at answering, ""Who benefits from the services being delivered? And where are the funds being spent and the services delivered?"

#### **3.2 EFFICIENCY**

- 3.2.1 Measures of efficiency seek to reflect how productively resources are translated into service delivery. It is therefore measured by a ratio of output to input. The higher the numerical value of this ratio, the greater the efficiency.

#### **3.3 ECONOMY**

- 3.3.1 Measures of economy look at the cost of inputs, and mode of production to evaluate whether it is cost-effective, i.e. the aim is to answer the question "Was this the cheapest way of producing the desired outputs?" These measures also only have meaning in a relative sense, which means the municipality needs to either compare the actual cost of their outputs with budgeted costs, and explain variances or compare the cost of their outputs with the cost of similar outputs produced elsewhere, e.g. to other state institutions, provinces, in the private sector or in other countries.



### **3.4 EFFECTIVENESS**

- 3.4.1 Indicators of effectiveness seek to reflect how well the outputs contribute to the achievement of the desired outcomes/objective/goals. Measuring effectiveness assumes a model of how outputs relate to the achievement of the desired outcomes.

### **3.5 VALUE FOR MONEY**

- 3.5.1 Indicators of value for money explore people's perceptions on whether resources have been well used to impact upon specific outcomes. While indicators of value for money are subjective in nature, the methodology used to collect the information on people's perceptions is usually objective e.g. customer surveys or public opinion surveys.
- 3.6 Given these different dimensions of performance, the municipality need to develop measurable objectives and related performance measures and targets that capture strategically important aspects of what they are doing or delivering so as to be able to monitor performance.
- 3.7 All performance measures and targets need to comply with the "carrot" criteria, i.e. they need to be:

Comparable	Information in a format that can be compared across time, region or institution.
Accessible	Clear, easily understood.
Relevant	Measures something meaningful from a management and oversight perspective.
Reliable	Free from error, unbiased, complete and can be replicated.
Operational	Relatively easy to collect data.
Timely	Must be readily available so it can be used for management and oversight.

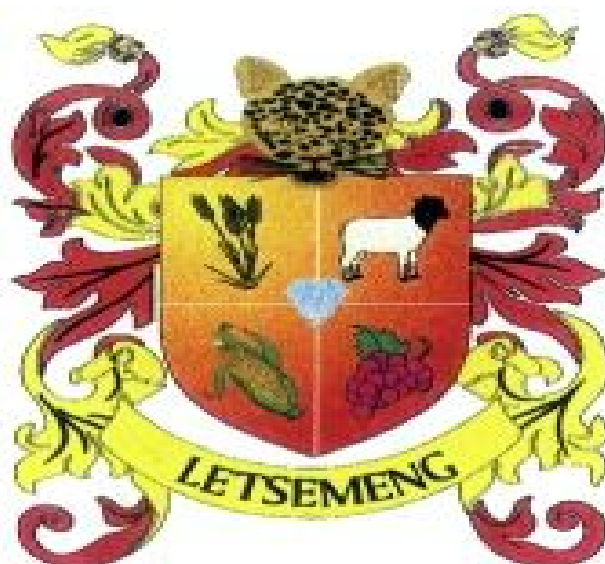
## **4 MONITORING OF MUNICIPAL SUPPLY CHAIN MANAGEMENT**

- 4.1 The AO of the municipality must within 30 days of the end of the financial year, submit a report on the implementation of the SCM policy of the municipality, to the Council of the municipality.

- 4.2 Whenever there are serious and material problems in the implementation of the SCM policy, the Accounting Officer must immediately submit a report to the Council of the municipality.

**END OF THE POLICY**

# Letsemeng Local Municipality



## Tariff Policy

## 1. DEFINITIONS

In this tariff policy, unless inconsistency with the context, a word or expressions to which a meaning in the Act has been attached means:-

**“agricultural consumers”** include but are not limit to- farms, smallholdings and agricultural show grounds;

**“break even”** occurs where the volume sales are equal to the fix and variable cost associated with the provision of the service;

**“charitable and welfare institutions and organisations”** include but are not limit to any institution managed on a non profitable basis by a church association or a registered charity organisation for example old ages homes, pre-primary schools, care facility for pre primary children, old age facility, homes and/or care facilities for the homeless and children homes;

**“commercial consumers”** include but are not limit to business undertakings, shops, offices, liquor stores, supermarkets, public garages, gathering places, nurseries, places of entertainment, service stations, hairdressings salons, banks, hotels, guesthouses, boarding houses and doctor-and dentist consulting rooms;

**“community service”** are services that the Council has classified as such and the tariffs have been compiled with the intention that the costs of the services cannot be recovered fully from public service charges and are of a regulatory nature;

**“councillor for financial matters”** the councillor of the municipal council responsible for financial matters;

**“domestic consumers”** include but are not limit to residence, group housing, town houses, semi-detached houses, and flats;

**“economic services”** are services that the Council has classified as such and the tariffs have been compiled with the intention that the total costs of the services are recovered from customers;

**“educational and communal institutions”** include but are not limit to schools, colleges, pre-primary schools not operated by a registered charity or welfare organisations, libraries, museums, churches, hospitals, clinics, correctional institutions, school hostels and community halls;

**“fixed costs”** are costs which do not vary with consumption or volume produced;

**“geographical areas”** areas identified as such by council due to service backlogs, social circumstances or any other similar reasons;

**“indigent households”** are households that are registered at the municipality as such and meet the criteria’s as stipulated in section 20 of the credit control and debt collection policy and occupying a property within the jurisdiction of the municipality;

**“industrial consumers”** include but are not limit to industrial undertakings, factories, warehouses, workshop, scrap yards, stores, wine cellars, abattoir, dairy processing plants and fish markets;

**“in season”** refers to the period from the 1st December of a year up to 31 January of the following year and from the Monday before the Easter weekend up to and including Easter Monday;

**“lifeline tariffs”** a unit charge calculated by dividing the total cost associated with the service by the volume consumed (units);

**“municipal properties”** include but are not limit to all properties registered in the name of the Letsemeng Municipality or controlled by the municipality excepting libraries, museums, and contagious diseases hospital and caravan parks;

**“resident”** a person who is ordinary resident in the municipal area;

**“special agreements”** are special tariff agreements entered into with consumers making significant economic contribution to the community and create job opportunities;

**“sport and recreation facilities”** include but are not limit to properties used exclusively for sport and recreation purposes including school sport fields which are metered separately for water and electricity consumption and caravan parks;

**“the Act”** the Local Government: Municipal Systems Act, 2000 (Act no 32 of 2000);

**“total cost”** is the sum of all fixed and variable costs associated with a service;

**“trading services”** are services that the Council has classified as trading services and the tariffs have been compiled with the intention that the Council makes a profit on the delivery of the services;

**“two-part tariffs”** are tariffs that are raised to cover the fixed and variable costs separately. The fixed costs are recovered by dividing the total fixed costs by the number of customers per category and the variable costs are recovered by dividing the total variable costs by the volume consumed;

**“units consumed”** are the number of units consumed of a particular service and are measured in terms of the approved tariff structure;

**“variable costs”** are costs that vary with consumption or volume produced.

## **2. PURPOSE OF THIS POLICY**

2.1 Letsemeng Municipality wishes to achieve the following objectives by adopting this tariff policy.

2.1.1 To comply with the provisions of section 74 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000).

2.1.2 To prescribe procedures for calculating tariffs where the municipality wishes to appoint service providers in terms of section 76(b) of the Act.

2.1.3 To give guidance to the Mayor regarding tariff proposals that must be submitted to Council annually during the budget process.

## **3. TARIFF PRINCIPLES**

3.1 In setting its annual tariffs the council shall at all times take due cognisance of the tariffs applicable elsewhere in the economic region, and of the impact which its own tariffs may have on local economic development.

3.2 Letsemeng Municipality wishes to record that the following tariff principles will apply.

3.2.1 Service tariffs imposed by the local municipality shall be viewed as user charges and shall not be viewed as taxes, and therefore the ability of the relevant consumer or user of the services to which such tariffs relate, shall not be considered as a relevant criterion (except in the case of the indigency relief measures approved by the municipality from time to time).

3.2.2 The municipality shall ensure that its tariffs are uniformly and fairly applied throughout the municipal region.

3.2.3 Tariffs for the four major services rendered by the municipality, namely:

- \* electricity

- \* water

- \* sewerage (waste water)

- \* refuse removal (solid waste)

shall as far as possible recover the expenses associated with the rendering of each service concerned. The tariff which a particular consumer or user pays shall therefore be directly related to the standard of service received and the quantity of the particular service used or consumed.

3.3 The municipality shall, as far as circumstances reasonably permit, ensure that the tariffs levied in respect of the foregoing services further generate an operating surplus each financial year of 10% or such lesser percentage as the council of the municipality may determine at the time that the annual operating budget is approved. Such surpluses shall be applied in relief of property rates and for the partial financing of general services or for the future capital expansion of the service concerned, or both. The modesty of such surplus shall prevent the service tariffs concerned from being viewed as concealed taxes.

3.4 The municipality shall develop, approve and at least annually review an indigency support programme for the municipal area. This programme shall set out clearly the municipality's cost recovery policy in respect of the tariffs

which it levies on registered indigents, and the implications of such policy for the tariffs which it imposes on other users and consumers in the municipal region.

- 3.5 In line with the principles embodied in the Constitution and in other legislation pertaining to local government, the municipality may differentiate between different categories of users and consumers in regard to the tariffs which it levies. Such differentiation shall, however, at all times be reasonable, and shall be fully disclosed in each annual budget.
- 3.6 The municipality's tariff policy shall be transparent, and the extent to which there is cross-subsidisation between categories of consumers or users shall be evident to all consumers or users of the service in question.
- 3.7 The municipality further undertakes to ensure that its tariffs shall be easily explainable and understood by all consumers and users affected by the tariff policy concerned.
- 3.8 The municipality also undertakes to render its services cost effectively in order to ensure the best possible cost of service delivery.
- 3.9 In the case of directly measurable services, namely electricity and water, the consumption of such services shall be properly metered by the municipality, and meters shall be read, wherever circumstances reasonably permit, on a monthly basis. The charges levied on consumers shall be proportionate to the quantity of the service which they consume.
- 3.10 In addition, the municipality shall levy monthly availability charges for the services concerned, and these charges shall be fixed for each type of property as determined in accordance with the detailed policies set out below. Generally, consumers of water and electricity shall therefore pay two charges: one, relatively minor, which is unrelated to the volume of consumption and is levied because of the availability of the service concerned; and another directly related to the consumption of the service in question.
- 3.11 In considering the costing of its water, electricity and sewerage services, the municipality shall take due cognisance of the high capital cost of establishing and expanding such services, and of the resultant high fixed costs, as opposed to variable costs of operating these services. The municipality therefore undertakes to plan the management and expansion of the services carefully in order to ensure that both current and reasonably expected future demands are adequately catered for, and that demand levels which fluctuate



significantly over shorter periods are also met. This may mean that the services operate at less than full capacity at various periods, and the costs of such surplus capacity must also be covered in the tariffs which are annually levied.

- 3.12 In adopting what is fundamentally a two-part tariff structure, namely a fixed availability charge coupled with a charge based on consumption, the municipality believes that it is properly attending to the demands which both future expansion and variable demand cycles and other fluctuations will make on service delivery.
- 3.13 It is therefore accepted that part of the municipality's tariff policy for electricity services will be to ensure that those consumers who are mainly responsible for peak demand, and therefore for the incurring by the municipality of the associated demand charges from Eskom, will have to bear the costs associated with these charges. To this end the municipality shall therefore install demand meters to measure the maximum demand of such consumers during certain periods. Such consumers shall therefore pay the relevant demand charge as well as a service charge directly related to their actual consumption of electricity during the relevant metering period.
- 3.14 Furthermore the following principles will also apply:
- (1) Free services will only be possible if the National Government pay to the municipality an equitable share subsidy which covers the full costs of the free services.
  - (2) All users of municipal services will be treated equitably. The various categories of customers will pay the same charges based on the same cost structure.
  - (3) The amount payable by consumers will be in proportion to usage of the service.
  - (4) Indigent households must at least have access to basic services through lifeline tariffs or direct subsidisation.
  - (5) Tariffs must reflect the total cost of services.

- (6) Within limits, customers should be free to choose from a range of applicable tariffs.
- (7) Tariffs must be set at a level that facilitates the sustainability of services. Sustainability will be achieved by ensuring that:
  - (a) Cash inflows cover cash outflows. This means that sufficient provision for working capital and bad debts will be made.
  - (b) Access to the capital market is maintained. This will be achieved by providing for the repayment of capital, maintaining sufficient liquidity levels and making profits on trading services.
- (8) Provision will be made in appropriate circumstances for a surcharge on a tariff. This will be required during a national disaster and periods of droughts when a restriction of usage is required.
- (9) Efficient and effective use of resources will be encouraged by providing for penalties to prohibit exorbitant use.
- (10) The extent of subsidisation of tariffs will be disclosed.
- (11) VAT is excluded from all tariffs and will be additional to these tariffs when applicable.

#### **4. CATEGORIES OF CUSTOMERS**

- 4.1 Separate tariffs structure may be raised for the following categories of customers
  - a) domestic consumers;
  - b) commercial consumers;
  - c) industrial consumers;
  - d) agricultural consumers;

- e) municipalities;
- f) consumers with whom special agreements were made;
- g) consumers in certain geographical areas;
- h) sport and recreation facilities
- i) educational and communal institutions; and
- j) charitable and welfare institutions and organisations.

4.2 Where there is a substantial difference between the infrastructure use to provide a service to a specific group of users within a category and/or standard of services provided, the Council can, after the considering a report by the Municipal Manager or the relevant Head of Department, determine differentiated tariffs for the different consumer within the specific category.

4.3 The differentiation must be based on one or more of the following elements; infrastructure costs, volume usage, availability and service standards.

## **5. CALCULATION OF TARIFFS FOR MAJOR SERVICES**

5.1 In order to determine the tariffs which must be charged for the supply of the four major services, the municipality shall identify all the costs of operation of the undertakings concerned, including specifically the following:

5.1.1 Cost of bulk purchases in the case of water and electricity.

5.1.2 Distribution costs.

5.1.3 Distribution losses in the case of electricity and water.

5.1.4 Depreciation expenses.

- 5.1.5 Maintenance of infrastructure and other fixed assets.
- 5.1.6 Administration and service costs, including: service charges levied by other departments such as finance, human resources and legal services; reasonable general overheads, such as the costs associated with the office of the municipal manager; adequate contributions to the provisions for bad debts and obsolescence of stock; all other ordinary operating expenses associated with the service concerned including, in the case of the electricity service, the cost of providing street lighting in the municipal area (note: the costs of the democratic process in the municipality – that is, all expenses associated with the political structures of the municipality – shall form part of the expenses to be financed from property rates and general revenues, and shall not be included in the costing of the major services of the municipality).
- 5.1.7 The intended surplus to be generated for the financial year, such surplus to be applied:
- (a) as an appropriation to capital reserves; and/or
  - (b) generally in relief of rates and general services.
- 5.1.8 The cost of approved indigent relief measures.
- 5.2 The municipality shall provide the first 50kWh of electricity per month and the first 6 kl of water per month free of charge to consumers who have registered as indigents in terms of the municipality's indigent relief programme.
- 5.3 The municipality shall further consider relief in respect of the tariffs for sewerage and refuse removal for such registered indigents to the extent that the council deems such relief affordable in terms of each annual budget, but on the understanding that such relief shall not be less than a discount of 50% on the monthly amount billed for the service concerned.
- 5.4 Because water is a scarce national resource, and this municipality is committed to the prudent conservation of such resources, the tariff levied for domestic consumption of water shall escalate according to the volume of water consumed.

- 5.5 The tariff for domestic consumption shall be based on monthly consumption of up to 6 kl (for non-indigents), more than 6 kl but not more than 30 kl, more than 30 kl but not more than 50 kl and more than 50 kl. Tariffs for non-domestic consumption shall be based on a single charge per kl consumed, irrespective of the volume of consumption concerned.
- 5.6 Tariffs for pre-paid meters shall be the same as the ordinary consumption tariffs levied on the category of consumer concerned plus included in the tariff will be an basic charge

## **6. ELECTRICITY**

- 6.1 The various categories of electricity consumers, as set out below, shall be charged at the applicable tariffs, as approved by the council in each annual budget.
- 6.2 Tariff adjustments shall be effective from 1 July each year or as soon as possible thereafter.
- 6.3 Categories of consumption and charges shall be as follows:
- 6.3.1 With the single exception of registered indigents, all electricity consumers shall be billed for their electricity consumption at the tariff applicable to the category in which the particular consumer falls.
- 6.3.2 The tariff for domestic consumption of electricity shall not exceed 75% per kWh of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers, shall pay the same tariff per kWh.
- 6.3.3 All domestic electricity consumers of the municipality who are registered as indigents with the municipality shall receive free the first 50kWh (fifty) of electricity consumed per month.
- 6.3.4 All domestic electricity consumers other than registered indigents and consumers using prepaid meters per month shall additionally be billed a basic charge per meter installed.
- 6.3.5 All commercial, industrial and other non-domestic properties shall additionally be billed a monthly basic charge per meter installed and,

where applicable, a demand charge appropriate to their respective levels of consumption.

6.3.6 The local municipality's departmental electricity consumption shall be charged at cost.

## **7. WATER**

7.1 The categories of water consumers as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.

7.2 Tariff adjustments shall be effective from 1 July each year.

7.3 Categories of consumption and charges shall be:

7.3.1 All domestic water consumers registered as indigents with the municipality shall receive free the first 6 (six) kl of water consumed per month. Thereafter a stepped tariff per kl as determined by the council from time to time shall be applicable on metered water consumption.

7.3.2 All other domestic consumers shall be charged for actual water consumption at a stepped tariff per kl as determined by the council from time to time.

7.3.3 The tariff applicable to domestic consumption of water shall not exceed 75% per kl of the tariff applicable to other consumers. All other consumers, including businesses, industries and institutional consumers, shall pay the same single tariff per kl, irrespective of the volume of water consumed.

7.3.4 A basic charge per water meter, as determined by the council from time to time, shall be charged on all water consumers, except registered indigents and consumers using prepaid meters.

7.3.5 The local municipality's departmental water consumption shall be charged at cost.

## **8. REFUSE REMOVAL**

- 8.1 The categories of refuse removal users as set out below shall be charged at the applicable tariffs, as approved by the council in each annual budget.
- 8.2 Tariff adjustments shall be effective from 1 July each year.
- 8.3 A separate fixed monthly refuse removal charge shall apply to each of the following categories of users, based on the costs of the service concerned:
- 8.3.1 Domestic and other users (once weekly removal)
- 8.3.2 Business and other users (twice weekly removal)
- 8.3.3 Business and other users (thrice weekly removal)
- 8.3.4 Business and other (bulk consumers).
- 8.4 Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed as a refuse removal charge.
- 8.5 A fixed monthly charge shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.

## **9. SEWERAGE**

- 9.1 The categories of sewerage users as set out below shall be charged per month at the applicable tariff as approved by the council in each annual budget.
- 9.2 Tariff adjustments will be effective from 1 July each year.
- 9.3 Categories of usage and charges shall be:
- 9.3.1 A basic (availability) charge per month shall be charged for undeveloped erven, irrespective of their permitted or intended use.

- 9.3.2 A fixed monthly charge based on the costs of the service shall be charged for bucket removal for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.
- 9.3.3 A fixed monthly charge based on the costs of the service shall be charged for domestic users. Registered indigents may receive such discount on this charge as the council deems affordable when approving each annual budget, but on the understanding that such discount shall not be less than 50% of the monthly amount billed for this service.
- 9.3.4 A fixed monthly charge based on the costs of the service per sewer point/toilet shall be charged to all businesses, industries and institutional users.
- 9.3.5 A fixed monthly charge per sewer point/toilet shall be charged to the local municipality's departments equal to the lowest (domestic) tariff.
- 9.3.6 An effluent fee shall further be payable by factories and other industrial users where the wastewater emanating from such users requires special purification measures by the municipality. Such fees shall be based on the toxic content of the wastewater concerned and the costs of the purification.

## **10. MINOR TARIFFS**

- 10.1 All minor tariffs shall be standardised within the municipal region.
- 10.2 All minor tariffs shall be approved by the council in each annual budget, and shall, when deemed appropriate by the council, be subsidised by property rates and general revenues, particularly when the tariffs will prove uneconomical when charged to cover the cost of the service concerned, or when the cost cannot accurately be determined, or when the tariff is designed purely to regulate rather than finance the use of the particular service or amenity.



10.3 All minor tariffs over which the municipality has full control, and which are not directly related to the cost of a particular service, shall annually be adjusted at least in line with the prevailing consumer price index, unless there are compelling reasons why such adjustment should not be effected.

10.4 The following services shall be considered as subsidised services, and the tariffs levied shall cover 50% or as near as possible to 50% of the annual operating expenses budgeted for the service concerned:

10.4.1 burials and cemeteries

10.4.2 rentals for the use of municipal sports facilities

10.5 The following services shall be considered as community services, and no tariffs shall be levied for their use:

10.5.1 municipal museum and art gallery

10.5.2 disposal of garden refuse at the municipal tip site

10.5.3 municipal reference library

10.5.4 municipal lending library (except for fines set out below)

10.5.5 municipal botanical garden, and all other parks and open spaces.

10.6 The following services shall be considered as economic services, and the tariffs levied shall cover 100% or as near as possible to 100% of the budgeted annual operating expenses of the service concerned:

a) maintenance of graves and garden of remembrance (cremations)

b) housing rentals

c) rentals for the use of municipal halls and other premises

- d) building plan fees
- e) sales of plastic refuse bags
- f) sales of refuse bins
- g) cleaning of stands
- h) electricity, water, sewerage: new connexion fees
- i) sales of livestock and plants
- j) photostats copies and fees
- k) clearance certificates
- l) Renting out of library hall
- m) Garden refuse removal
- n) advertising sign fees

10.7 The following charges and tariffs shall be considered as regulatory or punitive, and shall be determined as appropriate in each annual budget:

- a) fines for lost or overdue library books
- b) pound fees
- c) electricity, water: disconnection and reconnection fees
- d) penalty and other charges imposed in terms of the approved policy on credit control and debt collection

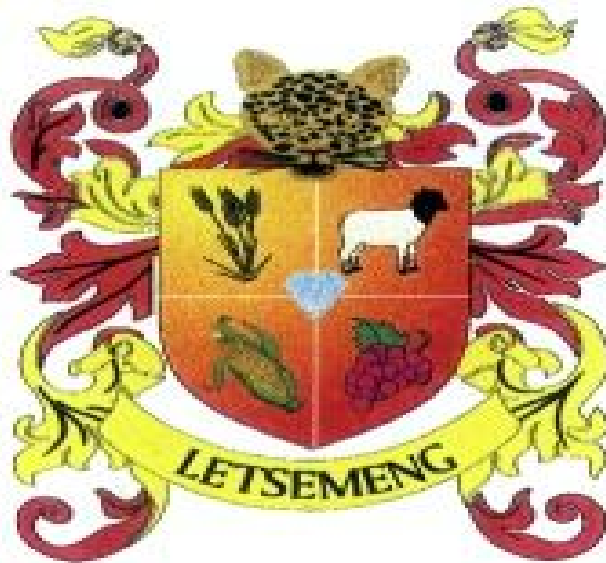
- e) penalty charges for the submission of dishonoured, stale, post-dated or otherwise unacceptable cheques.

10.8 Market-related rentals shall be levied for the lease of municipal properties.

10.9 In the case of rentals for the use of municipal halls and premises, if the municipal manager is satisfied that the halls or premises are required for non-profit making purposes and for the provision of a service to the community, the municipal manager may waive 50% of the applicable rental.

10.10 The municipal manager shall determine whether an indemnity or guarantee must in each instance be lodged for the rental of municipal halls, premises and sports fields, and in so determining shall be guided by the likelihood of the municipality's sustaining damages as a result of the use of the facilities concerned.

## **Letsemeng Local Municipality**



## **ASSET MANAGEMENT POLICY**

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## **1. PREAMBLE**

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

The municipal council of Letsemeng Local Municipality wishes to adopt a policy to guide the Municipal Manager in the management of the municipality's assets.

The Municipal Manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulates the acquisition, safeguarding and maintenance of all assets.

These assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

The Municipal Manager must ensure an effective Asset Management Committee that will give guidance regarding the execution of the asset management policies and procedures is in operation.

Therefore the municipal council of the Letsemeng Local Municipality adopts the following asset management policy.

## 2. DEFINITIONS

**Accounting Officer** means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

**Assets** are items of Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

**Carrying Amount** is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

**Chief Financial Officer (CFO)** means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

**Class of property, plant and equipment** means a grouping of assets of a similar nature or function in a municipality's operations that is shown as a single item for the purpose of disclosure in the financial statements.

**Cost** is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

**Critical Assets** are assets identified as having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

**Depreciable Amount** is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

**Depreciation** is the systematic allocation of the depreciable amount of an asset over its useful life.

**Fair Value** is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

**GAAP** are standards of Generally Accepted Accounting Practice.

**GRAP** are standards of Generally Recognised Accounting Practice.

**Impairment loss** of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

**Infrastructure Assets** are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

**Intangible Assets** are defined as identifiable non-monetary assets without physical substance.

**Investment Properties** are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

**Land and Buildings** are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

**MFMA** refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

**Other Assets** are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

**Property, Plant and Equipment (PPE)** is tangible assets that:

- Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- Are expected to be used during more than one period.

**Recoverable Amount** is the higher of a cash-generating asset's net selling price and its value in use.



**Recoverable Service Amount** is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

**Residual Value** of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**Useful Life** is:

- The period of time over which an asset is expected to be used by the municipality; or
- The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

### **3. OBJECTIVE**

The MFMA was introduced with the objective of improving accounting in the local government sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the previous accounting framework, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the accounting records and systematically written off over their anticipated useful lives. This necessitates that a record is kept of the cost of the assets, the assets are verified and the condition assessed periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;

- the effective, efficient and economical use of the resources of the municipality;
- the management (including safeguarding and maintenance) of the assets of the municipality;
- that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- has consistent application of asset management principles;
- implements accrual accounting;
- complies with the MFMA and other related legislation;
- correctly accounts for Assets under the GRAP accounting framework;
- safeguards and controls the assets of the municipality; and
- optimises asset usage.

#### *Asset Management Committee*

To facilitate and assist the Municipal Manager, as Accounting Officer of the Letsemeng Local Municipality in his functions relating to asset management as set out in Section 63 of the MFMA, the Municipal Manager, hereby, delegates the custody of and responsibility for assets to the various Executive Directors as defined in the organisational structure of the Letsemeng Local Municipality. Executive Directors will identify officials on an appropriate level to assist them with the application of the policy and procedures proclaimed from time to time. The Asset Management Committee as established in terms of paragraph 1 must be informed in writing of the appointment of such Asset Managers.

The responsibilities for asset management as detailed hereunder include and remain until the asset is disposed of or transferred to another entity:

- ensuring that, when acquiring assets, decisions on how to account for the transactions, e.g. whether they should be capitalised or expensed, are made in full compliance with the MFMA, accounting standards, National Treasury and other guidelines;
- ensuring that the purchase of assets complies with all municipal policies and procedures, including the MTREF;
- ensuring that the correct date on which an asset is available for use or

commissioned is properly recorded in the Asset Register and that the appropriate financial data are recorded;

- ensuring that all assets are duly processed, identified and recorded before issued for use;
- ensuring that all assets under the Asset Manager's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets and regular asset verification to ensure losses have not occurred, and ensuring that any known losses are immediately reported to the Chief Financial Officer and loss control officer;
- ensuring that proper procedures for the movement of assets from one asset holder to another, for maintenance, or disposals outside the municipality are in place and enforced;
- ensuring assets are utilised for the purpose for which they were acquired by the municipality.
- ensuring that all assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

#### 4. POLICY FRAMEWORK

The main challenges associated with managing assets can be characterised as follows:

- Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.

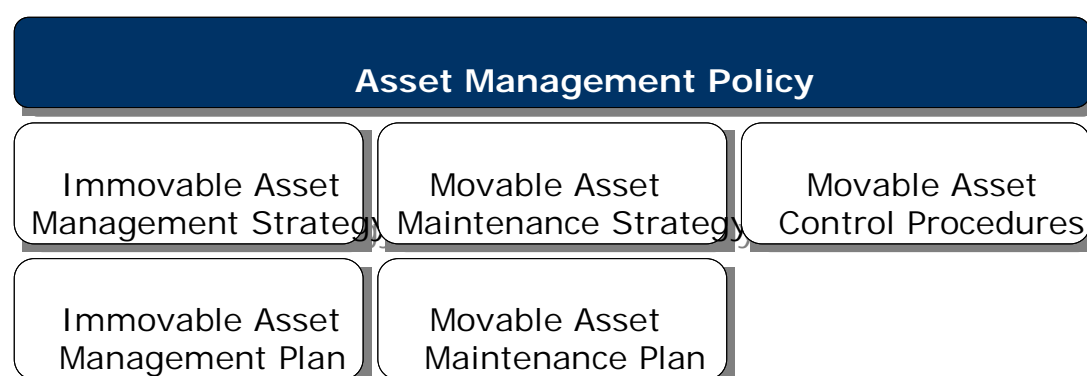


Figure 1: Proposed policy and strategic framework

## 5. Asset Recognition

5.1	Classification of Assets
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### General

When accounting for assets, the municipality should follow the various standards of GRAP relating to the assets. An item is recognised in the statement of financial position as an asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
  - Land and Buildings (land and buildings not held as Investment)
  - Infrastructure Assets (immovable assets that are used to provide basic services)
  - Housing Assets (rental stock or housing stock not held for capital gain)
  - Other Assets (ordinary operational resources)
2. Intangible Assets (GRAP 102)
  - Intangible Assets (assets without physical substance held for ordinary operational resources)
3. Investment Property (GRAP 16)
  - Investment Assets (resources held for capital or operational gain)

When accounting for Current Assets (that is of capital nature), the municipality should follow the various standards of GRAP relating to these assets. Current Assets (with a capital nature) are classified into the following categories for financial reporting purposes:

4. Assets classified as Held-for-Sale (GRAP 100)
  - Assets Held-for-Sale (assets identified to be sold in the next 12 months and **that is not** reclassified as Inventory)
5. Land Inventories (GRAP 12)
  - Land Inventories (land or buildings owned or acquired with the intention of selling such property in the ordinary course of business)

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and Asset Register data, infrastructure assets have been further classified. The recommended classifications for all assets are provided in **Appendix B**.

### **Policy**

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in **Appendix B** shall be adopted.

### **Procedures and Rules**

The Asset Management Committee shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.

The Asset Management Committee shall inform Executive Directors of the classification requirements.

Executive Directors shall ensure that all fixed assets under their control are classified correctly.

5.2 Identification of Assets
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### **General**

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

### **Policy**

An asset identification system shall be operated and applied in conjunction with an Asset Register. As far as practicable, every individual asset shall have a unique identification number.

### **Procedures and Rules**

- The Asset Management Committee shall develop and implement an asset identification system, while acting in consultation with Executive Directors.
- Executive Directors shall ensure that all the assets under their control are correctly identified.

- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.
- GPS coordinates must be captured on the Asset Register for infrastructure assets and buildings where practicable. The Head: Information Technology will update the GIS and ensure that the GPS coordinates on the Asset Register and the GIS are reconciled at least once per year after the annual physical asset verification.

### 5.3 Asset Register

#### General

An Asset Register is a database of information related to all the assets under the control of the municipality. The Asset Register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the Asset Register. The data requirements for the Asset Register are as follows:

Data type	Land	Movable	Infrastructure/ Buildings
<b>Identification</b>			
• Unique identification number or asset mark	✓	✓	✓
• Unique name	✓	✓	✓
• National Treasury Classification	✓	✓	✓
• Internal Classification	✓	✓	✓
• Descriptive data (make, model, etc.)	✓	✓	✓
• Erf/Registration	✓	✓	✓
• Title deed reference	✓		
• GPS Coordinates		✓	✓
• SC Codes	✓		
<b>Accountability</b>			
• Department	✓	✓	✓

Data type	Land	Movable	Infrastructure/ Buildings
• Insurance reference		✓	✓
<b>Performance</b>			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
• Technical Asset Residual Value			✓
• Criticality		✓	✓
<b>Accounting</b>			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓
• Take on date	✓	✓	✓
• Depreciation method	✓	✓	✓
• Depreciation charge for the current financial year	✓	✓	✓
• Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓
• Impairment losses in the current year	✓	✓	✓
• Accumulated depreciation	✓	✓	✓
• Carrying value	✓	✓	✓
• Residual value		✓	✓
• Source of financing	✓	✓	✓

Assets remain in the Asset Register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

## **Policy**

An Asset Register shall be maintained for all assets. In some cases, such as Investment Properties and Intangible Assets, separate Asset Registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The Asset Register should be continuously updated and asset records should be reconciled to the general ledger on an annual basis.

## **Procedures and Rules**

The CFO must define the format of the Asset Register in consultation with the Executive Directors and must ensure that the Asset Register format complies with legislative requirements.

The Asset Management Committee must ensure that a defined process and forms exist to update and maintain the Asset Register.

The Executive Directors must provide the CFO with the information required to compile and maintain the Asset Register.

## **6. RECOGNITION OF ASSETS: INITIAL MEASUREMENT**

### **General**

An asset should be recognised as an asset in the financial and asset records when:

- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality; and
- The cost or fair value of the item to the municipality can be measured reliably; and
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on Inventories and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Further guidance for the recognition of assets is provided below:



## **Calculation of initial cost price**

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees such as for architects and engineers;
- The estimated cost of dismantling and removing the asset and restoring the site; and
- Interest costs when incurred on a qualifying asset in terms of GRAP 5.

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

## **Subsequent Expenses**

Only expenses incurred on the enhancement of an asset (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and shall not be capitalised, irrespective of the quantum of the expenses concerned.

## **Leased Assets**

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as an asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

### **Policy**

All assets shall be correctly recognised as assets and capitalised at the correct value.

### **Procedures and Rules**

Executive Directors shall ensure that all leased assets under their control are correctly accounted for and recognised as assets.

The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.

Executive Directors shall keep a timesheet system to capture professional time spent by internal staff dedicated for a fixed period of time to the production process of infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.

## **7. SUBSEQUENT MEASUREMENT OF ASSETS**

### **General**

Letsemeng Local Municipality shall choose either the cost model or the revaluation model as its accounting policy and shall apply that policy to an entire class of property, plant and equipment. Currently Letsemeng Local Municipality uses the cost model after initial recognition.

### **Procedures and Rules**

The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the Asset Register at cost less any accumulated depreciation and any accumulated impairment losses.

## **8. RECOGNITION OF INVENTORY ITEMS (NON-CAPITAL ITEMS)**

## **General**

Inventories encompass finished goods purchased or produced, or work in progress being produced by the municipality. They also include materials and supplies awaiting use in the production process and goods purchased or produced by the municipality, which are for distribution to other parties for no charge or for a nominal charge. GRAP 12.7 defines Inventories as assets:

- In the form of materials or supplies to be consumed in the production process;
- In the form of materials or supplies to be consumed or distributed in the rendering of services;
- Held for sale or distribution in the ordinary course of operations; or
- In the process of production for sale or distribution.

Examples of Inventories may include the following:

- Consumable stores;
- Maintenance materials;
- Spare parts for plant and equipment other than those dealt with under PPE;
- Strategic stockpiles (Energy reserves, Water reserves);
- Work in progress; and
- Land / Property held for sale.

Cost of inventories shall comprise of all costs of purchase (i.e. purchase price, import duties, other taxes and transport, handling and other costs attributable to the acquisition of finished goods, materials and supplies), costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Trade discounts, rebates and other similarities are deducted. Taxes recoverable by the entity from the SARS may not be included.

Costs of development for housing or similar developments which are acquired or developed for resale will include costs directly related to the development – e.g. purchase price of land acquired for such developments, surveying, conveyance costs and the provision of certain infrastructure. Infrastructure costs relating to extending the capacity of existing infrastructure are excluded. The costs of inventories of a service provider consisting of direct labour and other costs of personnel directly engaged in providing the service and other attributable overheads are included.

## **Policy**

Items acquired or owned by the municipality for the purpose of selling or developing such assets with the intention to sell it or utilising the asset in the production process or in the rendering of services shall be accounted for in the municipality's financial statements as inventory items and not as property, plant and equipment.

## Procedures and Rules

The CFO must record inventories in a dedicated section of the Inventory Register and maintain it for this purpose. The amount of cost of inventories is to be recognised and carried forward until related revenues are recognised.

Inventories shall be measured at the lower of cost and current replacement cost where they are held for:

- Distribution at no charge or for nominal charge, or
- Consumption in the production process of goods to be distributed at no charge or for a nominal charge.

In cases where the above does not apply, inventories shall be measured at lower of cost and net realisable value.

## 9. ASSET TYPES

9.1 Property, Plant and Equipment: LAND AND BUILDINGS
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### General

Land and Buildings comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes and/or to provide services to the community. These assets include building assets such as offices, staff housing, aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks and also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

### Policy

Land and buildings shall be treated using the cost less depreciation model. Land shall initially be accounted for at cost price, or fair value in cases where cost price is not known, and shall not be depreciated. Land on which infrastructure and/or buildings are located shall be listed separately in the land register and not with the infrastructure or building assets. A reference to the land shall however be included in the infrastructure and/or building Asset Register.

Land and Buildings shall be recorded under the following categories;

- LAND
  - Developed Land
  - Undeveloped Land
- BUILDINGS
  - Dwellings
  - Non-residential Structures

## Procedures and Rules

- The CFO shall ensure that all land and buildings are correctly recorded in the Asset Register. The Asset Management Committee shall ensure that land and buildings are revalued (if applicable) in terms of the municipality's policies.
- The CFO shall ensure the recognition, measurement and revaluation of Land and Buildings in terms of GRAP 17.

### 9.2 Property, Plant and Equipment: INFRASTRUCTURE ASSETS

#### General

Infrastructure Assets comprise assets used for the delivery of infrastructure based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a transformer in a sub-station.

#### Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data. The different levels of detail are shown below:

- **Level 1:** Service level (e.g. Letsemeng Local Municipality Electricity Network)
- **Level 2:** Network level (e.g. HV Transmission Network (>22kV))
- **Level 3:** Facility level (e.g. Laviopierre HV Sub Station)
- **Level 4:** Maintenance item level (e.g. HV Current Transformer)
- **Level 5:** Component level (e.g. OCB of HV CT)

The preferred level of detail for the accounting and technical management of infrastructure is level 4 above.

The compilation of a detailed infrastructure Asset Register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing Asset Registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities too slowly, but steadily, increases their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc.

## Policy

The infrastructure Asset Register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed annually, but the cost related to such reviews should be measured against benefits derived to ensure value for money.

Infrastructure assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in **Annexure B**.

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Infrastructure Assets shall be recorded under the following main categories;

- Electricity Network;
- Roads Network;
- Solid Waste Disposal;
- Storm Water Network

## Procedures and Rules

The Asset Management Committee shall define the level of detail of the infrastructure Asset Register in consultation with the Executive Directors.

The Asset Management Committee shall approve an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Executive Directors.

The Asset Management Committee shall ensure the recognition and measurement of Infrastructure Assets in terms of GRAP 17.

Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Executive Directors must inform the Asset Management Committee of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

### 9.3 Property, Plant and Equipment: BUILDINGS

#### General

Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

#### Policy

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

Housing Assets shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes.

#### Procedures and Rules

The Asset Management Committee, in consultation with Executive Directors, shall ensure that all housing assets are appropriately recorded and valued in terms of the municipality's policies.

### 9.4 Property, Plant and Equipment: OTHER ASSETS

#### General

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and

fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

## Policy

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

Other assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in **Annexure B**.

Other Assets shall be recorded under the following main categories;

- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment;
- Specialised Vehicles;
- Watercraft; and
- Other Assets.

## Procedures and Rules

The Asset Management Committee, in consultation with Executive Directors, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.

Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Executive Directors must inform the Asset Management Committee of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

9.5	Intangible Assets
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## General

Intangible Assets can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost and valuation roll.



## Policy

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 102 has been met.

## Procedures and Rules

The Asset Management Committee, in consultation with Executive Directors, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.

It is the responsibility of the Head of Information Technology to ensure that all licensed computer software other than operating software is accounted for.

9.6 Investment Property
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## General

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).
- Land held for a currently undetermined future use. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

## Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be

accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at cost less accumulated depreciation, except in the cases described in GRAP 16.61. The fair value of investment property shall be determined annually at reporting date in terms of the municipality's Accounting Policy. The fair value should reflect market conditions and circumstances as at the reporting date.

## **Procedures and Rules**

The Asset Management Committee shall ensure that investment assets are recorded in an Investment Property register.

The Asset Management Committee shall ensure that an appropriately qualified valuator undertake such valuations on an annual basis.

The Asset Management Committee shall ensure the recognition and measurement of Investment Property in terms of GRAP 16.

<b>9.7 Assets Classified as Held-for-Sale (GRAP 100)</b>
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### **General**

A non-current asset shall be classified as Assets Held-for-Sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets and its sale must be highly probable.

For the sale to be highly probable, management must be committed to a plan to sell the asset, and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

### **Policy**

Assets identified for disposal by way of a sale transaction, be it by public auction, bidding process or sales agreement, within 12 months of the date of identification shall be classified as assets held-for-sale and transferred from the home asset category to held-for-sale category. Such assets shall be measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated any further upon classification as held-for-sale.

The municipality shall not classify a non-current asset that is to be abandoned as held-for-sale because its carrying amount will be recovered principally through continuing use.

## **Procedures and Rules**

The Asset Management Committee shall ensure that assets held-for-sale is recorded in a separate register.

The Asset Management Committee shall ensure the recognition and measurement of Assets Held-for-Sale in terms of GRAP 100.

9.8	Inventory Property (GRAP 12)
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### **General**

Inventory Property comprises any land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business.

### **Policy**

Inventory land and buildings shall be accounted for as inventory, and not included in either PPE or Investment Property in the municipality's Statement of Financial Position. Inventory property shall be valued annually at reporting date at the lower of its carrying value or net realisable value, except where they are held for:

- (a) distribution at no charge or for a nominal charge, or
- (b) consumption in the production process of goods to be distributed at no charge or for a nominal charge, and then they shall be measured at the lower of cost and current replacement cost.

## **Procedures and Rules**

The Asset Management Committee shall ensure that inventory properties are recorded in the Inventory register.

The Asset Management Committee shall ensure the recognition and measurement of Inventory Property in terms of GRAP 12.

## **10. ASSET ACQUISITION**

## 10.1 Acquisition of Assets

### General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

### Policy

Should the municipality decide to acquire an asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fits the definition of an asset (as defined in GRAP 12, GRAP 16, GRAP 17 and GRAP 102)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and

### Procedures and Rules

- The Asset Management Committee shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.

## 10.2 Creation of New Infrastructure Assets

### General

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.

### Policy

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs

of new infrastructure into its significant components, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

## **Procedures and Rules**

- Executive Directors shall ensure that a “Bill of Material” is submitted to Finance that includes the details of the work in progress relating to the relevant invoice and/or payment request.
- Executive Directors shall notify Finance when the works have been completed and the assets can be recognised.
- Executive Directors shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the Asset Register.

10.3 Self-constructed Assets
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## **General**

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

## **Policy**

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the Asset Register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the asset is in the condition necessary for it to operate in the manner intended by management.

## **Procedures and Rules**

Executive Directors shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.

Executive Directors shall open a job card for each infrastructure project constructed by the municipality.

On completion of the infrastructure project, the Executive Directors shall notify Finance of the asset being commissioned and will assist Finance in ensuring that all costs (both direct and indirect) associated with the construction of the assets are summed and capitalised to the assets that make up the project.

## **10.4 Donated Assets**

### **General**

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

### **Policy**

Donated assets should be valued at fair value, reflected in the Asset Register, and depreciated as normal assets.

### **Procedures and Rules**

All donated assets must be approved by the Asset Management Committee and ratified by Council prior to acceptance.

The Asset Management Committee must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.

The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.

Municipal officers must inform the Asset Management Committee of any donations made to the Municipality.

## **11. ASSET MAINTENANCE**

### **11.1 Useful Life of Assets**

#### **General**

Useful Life of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular

classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

## **Policy**

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

## **Procedures and Rules**

Executive Directors must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the Asset Management Committee.

During annual physical verification the condition of each asset must be reviewed to determine the validity of its remaining useful live as reflected on the Assets Register. All items identified as being impaired (with remaining useful live shorter than anticipated as per the Assets Register) must be reported to the Chief Financial Officer who will implement steps to ensure that the impairments are incorporated in the Assets Register and reported on as required by the standards of GRAP.

The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

The Asset Management Committee shall ensure that the Remaining Useful Life of an asset shall be reviewed at each reporting date.

<b>11.2 Residual Value of Assets</b>
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## **General**

The Residual Value of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

## **Policy**

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

## Procedures and Rules

Executive Directors must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the Asset Management Committee.

During annual physical verification the condition of each asset must be reviewed to determine the validity of its residual value as reflected on the Assets Register.

The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

The Asset Management Committee shall ensure that the residual value of an asset shall be reviewed at each reporting date.

11.3 Depreciation of Assets
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### General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of an asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- Straight-line;
- Diminishing Balance; and
- Sum of the Units.

### Policy

All assets, except land, shall be depreciated over their reasonable useful lives. The residual value and the useful life of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

It is the Municipalities' current accounting policy to determine depreciation on assets other than land as calculated on cost, using the straight line method, to



depreciate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is derecognised. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

## **Procedures and Rules**

Executive Directors must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.

Executive Directors must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Asset Management Committee for approval.

In the case of an asset which is not listed in the asset classification list, Executive Directors shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed. The Asset Management Committee must be informed of the additional asset classification and amend the Asset Management Policy accordingly.

Alternative depreciation methods may be used in exceptional cases, if motivated by the Executive Director controlling the asset to the Asset Management Committee. The Executive Director must then provide the Asset Management Committee with sufficient statistical information to make estimates of depreciation expenses for each financial year.

The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the Asset Register and the general ledger.

The CFO shall ensure that the residual value, useful life and depreciation method of an asset shall be reviewed at each reporting date.

<b>11.4      Impairment Losses</b>
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## General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. For example:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the carrying value and the recoverable service value. The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

## Policy

Assets shall be reviewed annually for impairment. Impairment of assets shall be recognised as an expense. The reversal of previous impairment losses recognised as an expense is recognised as an income.

## Procedures and Rules

The Asset Management Committee must ensure that annual impairment surveys are performed.

The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

11.5 Maintenance of Assets and the Asset Register
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## General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

## **Policy**

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the Asset Register.

The risk and criticality of all assets must be assessed in conjunction with the annual physical asset verification process. All assets with a condition rating greater than 3 (three) must be reported to the Asset Management Committee who will give instructions with regard to the criticality grading of the assets on the Asset Register. Executive Directors must ensure that the assets identified as critical are attended to in order to prevent possible failure.

## **Procedures and Rules**

- Executive Directors responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Executive Directors shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- Executive Directors shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.

- Executive Directors shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- Executive Directors shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

## 11.6 Renewal of Assets

### General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

### Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

### Procedures and Rules

The Asset Management Committee must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.

Executive Directors shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.

Executive Directors must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

## 11.7 Replacement of Assets

### General

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

### Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs

incurred to replace the asset shall be capitalised against the new asset. The SCMP will be applied.

## **Procedures and Rules**

- The Asset Management Committee must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.
- Executive Directors shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

## **12. ASSET DISPOSAL**

12.1 Transfer of Assets
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### **General**

The processes and rules for the transfer of an asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely “the Local Government: Municipal Asset Transfer Regulations”.

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed Asset Register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

### **Policy**

The transfer of assets is regulated by the SCMP and shall be controlled by the transfer processes in the policy and the Asset Register shall be updated accordingly.

## **Procedures and Rules**

Executive Directors must ensure that all asset transfer information is passed to Finance.

The CFO must ensure that a process is in place to capture and record asset transfer data.

Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.

No person shall transfer any IT equipment without the knowledge and written consent of the Head: Information Technology.

Executive Directors must immediately report to the Asset Management Committee any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

## **12.2 Exchange of assets**

### **General**

According to GRAP 17.33 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. The cost of such an item of property, plant and equipment is measured at fair value unless:

- (a) the exchange transaction lacks commercial substance; or
- (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

### **Policy**

The SCMP will be applied when assets are exchanged. The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

### **Procedures and Rules**

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The Asset Management Committee shall approve all asset exchanges in consultation with the relevant Executive Director.

## **12.3 Disposal of Assets**

### **General**

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of assets. Specifically:

- A municipality may not ...” permanently dispose of a asset needed to provide the minimum level of basic municipal services”
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality’s supply chain management policy.

## **Policy**

There are various methods of disposal. Different disposal methods will be needed for different types of assets. When deciding on a particular disposal method and consideration of the following, the SCMP on disposal of assets must be applied:

- The nature of the asset
- The potential market value
- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset’s life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the Asset Register.

## **Procedures and Rules**

Executive Directors shall report in writing to the Asset Management Committee on 31 October and 30 April of each financial year on all assets which they wish to alienate and the proposed method of alienation.

The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Asset Management Committee, recommending the process of alienation to be adopted.

The Council shall delegate to the Asset Management Committee the authority to approve the alienation of any asset.

The Council shall ensure that the alienation of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2004. The Act states that the municipality may not alienate any asset required to provide a minimum level of service. The municipality may alienate any other asset, provided the municipality has considered the fair market value and the economic and community value to be received in exchange for the asset.

**Selling:** Assets to be sold shall be sold in terms of paragraph 9.4 below.

**Donations:** Donations may be considered as a method of alienation, but such requests must be motivated to the Asset Management Committee for approval.

**Destruction:** Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.

**Scrapping:** Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Asset Management Committee.

Once the assets are alienated, the CFO shall write-off the relevant assets in the Asset Register.

The letting of immovable property must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.

The Asset Management Committee must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

12.4    Selling of Assets
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## **General**

Selling of assets refers to the public sale of municipal assets approved for disposal.

## **Policy**

The selling of assets must be within the parameters laid down in the SCMP. Further must all assets earmarked for sale is sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;



- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Assets earmarked for sale, shall be reclassified as Assets Held-for-Sale in terms of paragraph 6.10 of this Policy and shall not attract any further depreciation.

Sold assets shall be written-off in the Asset Register.

## Procedures

A request for assets to be sold must be submitted to the Asset Management Committee for approval. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 12.3 above.

Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.

The Asset Management Committee may approve the engagement of auctioneers either on a quotation basis or by tender depending on the goods to be alienated.

**Bidding:** Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.

**Tenders:** Tenders shall be invited according to the municipality's tender procedures.

Once the assets are sold, the CFO shall write-off the relevant assets in the Asset Register.

If the proceeds of the sales are less than the carrying value recorded in the Asset Register, such difference shall be recognised as a loss for the department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.

Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

12.5 Writing-off of Assets
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## General

The write-off of assets is the process to permanently remove the assets from the Asset Register. Assets can be written-off after approval of the Asset Management Committee of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;

- The asset is out dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.
- The SCMP has been adhered to.

The CFO may approve the ad hoc writing-off of assets without prior approval of the Asset Management Committee on condition that:

The write-offs fall after but between the next scheduled Asset Management Committee meeting and financial year end closure; and

The Asset Management Committee is informed of the write-offs at the next scheduled Asset Management Committee meeting.

## **Policy**

The only reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.

## **Procedures and Rules**

Executive Directors shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Executive Director wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Asset Management Committee on the assets to be written off.

An asset, even though fully depreciated, shall be written-off only on the recommendation of the Executive Director controlling or using the asset concerned, and with the approval of the Asset Management Committee.

In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.

Assets that are replaced should be written-off and removed from the Asset Register.

## 13. Asset Physical Control

13.1 Physical Control / Verification
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### General

Movable assets require physical control and verification of existence.

### Policy

All movable assets shall be actively controlled, including an annual verification process.

### Procedures and Rules

All movable assets, where practicable, must have a visible bar code or unique asset marking as determined by the Asset Management Committee.

Annual verification of movable assets should be conducted under the direction of Finance. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.

Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.

The Asset Management Committee shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the Asset Management Committee.

Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.

Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and signed by both parties concerned and a copy of this certificate must be forwarded to Finance. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.

If for any reason the person from whom the asset is being taken over is not available, the asset manager should assist the person taking over with the checking of the equipment and the certification of any discrepancies.

In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.

Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handling or reasonable wear and tear, shall be reported to the Asset Management Committee.

Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.

Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed off.

All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets. Where this is not practicable, the acquired assets must be delivered to the section issuing the requisition and that section must notify the procurement section so that bar-coding or asset marking can be arranged.

Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.

The Asset Management Committee may, on request of an Executive Director, waive full physical verification and accept written confirmation from the Executive Director of infrastructure assets being verified during the course of a financial period as part of routine and/or planned maintenance and/or physical inspections. Documentation in this regard must be kept by departments and be available for inspection. The Chief Financial Officer will inform the external auditors of the Asset Management Committee's decision.

## 13.2 Insurance of Assets

### General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

### Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils.

### Procedures and Rules

The Asset Management Committee will ensure that all assets are properly insured in terms of the policy.

## 13.3 Safekeeping of Assets

### General

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

## Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken.

## Procedures and Rules

The Asset Management Committee must issue directives that detail the safekeeping of assets.

Executive Directors must ensure that safekeeping directives are adhered to.

Malicious damage, theft, and break-ins must be reported to the CFO within 48 hours of its occurrence or awareness. The CFO will inform the Asset Management Committee of such occurrence.

The Municipal Manager must report criminal activities to the South African Police Service.

## 14. Asset Financial Control

14.1 Funding Sources
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### General

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilise funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants;
- Donations;
- Internally Generated Funds;
- External Loans; and / or
- Leases.

14.2 Capital Replacement Reserve (CRR)
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### General

The Capital Replacement Reserve is a reserve account to set aside funds for the financing of property, plant and equipment. The CRR is therefore an asset financing source that represents an alternative to the other funding sources available to the municipality, namely external loans (interest bearing borrowings) and government grants & subsidies. The value of this reserve is not represented by any values of assets under the municipality's control and shall preferably be cash-backed.

## **Policy**

It is the policy of Council to annually make contributions to the CRR to ensure that the CRR remains a capital funding source for the future. The municipality will determine its future capital financing requirements and transfer sufficient cash to its CRR in terms of this determination. The Integrated Development Plan, the municipality's ability to raise external finance and the amount of government grants and subsidies that will be received in future will need to be taken into account in determining the amount that must be transferred to the CRR.

Whenever an asset is sold by the municipality, the proceeds on the sale of the assets must be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

All proceeds on the sale of land will be transferred from the Accumulated Surplus to the CRR via the Statement of Changes in Net Assets.

Whenever an asset is purchased out of the CRR an amount equal to the cost price of the asset purchased, is transferred from the CRR into accumulated surplus on the Statement of Changes in Net Assets.

## **Procedures and Rules**

The CFO is responsible for creating and maintaining the CRR.

The CFO must ensure the annual transfers to the CRR from the municipality's appropriation account.

The CFO must ensure the transfers from the CRR to the municipality's appropriation account in respect of assets purchased.

The balance on the CRR must always be represented by cash, which must be held in a separately identifiable bank or investment account.

The CRR may only be utilised for the purpose of purchasing items of PPE for the municipality and may not be used for the maintenance of these items.

Interest earned on the CRR investments is recorded as interest earned in the Statement of Financial Performance and must then be transferred to the CRR in the Statement of Changes in Net Assets.